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# Police, Moslems in Jerusalem Clash Over Jewish Pilgrimage

By Glenn Frankel
*Washington Post Service*

JERUSALEM — Arabs clashed with the police atop the Temple Mount on Sunday morning, causing hundreds of Jewish worshipers and tourists to flee from the nearby Western Wall.

The trouble began when hundreds of Palestinian demonstrators sought to block entry to the religious area to ultraorthodox Jewish nationalists who had come to pray at the site, which contains two Islamic mosques and is sacred to both Moslems and Jews.

Policemen escorting the Jewish pilgrimage fired tear gas canisters and shot in the air to disperse the rock-throwing crowd.

The tear gas wafted over the Western Wall, Judaism's holiest site, which is just below the mosques. Hundreds of Jewish worshipers there to celebrate the autumnal festival of Sukkot were forced to flee, some of them shouting in panic.

Meanwhile, a young Jewish man who was shot in the head Saturday night in Jerusalem's Old City in a separate incident died of his wounds. And the Israeli-occupied Gaza Strip, where four Palestinians and an Israeli internal security agent were killed in a gun battle last week, erupted in rioting for the fifth straight day.

The Temple Mount, in the southwest corner of the Old City, is reputedly both the site of King Solomon's Temple and the spot from which the Islamic prophet Mohammed ascended to heaven.

Since Israel occupied and annexed Arab East Jerusalem following the 1967 Six-Day War, it has remained under administrative control of the Waqf, an Islamic institution that has barred non-Moslems from prayer.

The arrangement has come under increasing fire from rightist Jewish activists, who have pressed for Israeli rule over the area.

The Temple Mount Faithful, a small group of activists, announced in advance that it had received permission to visit the site Sunday morning and that it would hold a Jewish prayer service there. The police denied that Jewish prayers would be allowed, but the announcement led Moslem activists to organize a protest.

A police spokesman said the Palestinians had refused orders to disperse and that the police had then acted. About a dozen Arabs were arrested.

"On the one hand I'm satisfied," Gershon Solomon, leader of the Jewish group, said afterward. "I feel proud today that the Israeli police and the Israel Defense Force proved that Israeli sovereignty applies on the Temple Mount. On the other hand it pains me that we have got to the point where a large force has to be brought up to prevent Arabs from running wild. And about what? About Jews going up to the Temple Mount."

Arab officials at the site said nearly 50 Palestinians were taken to hospitals suffering from tear gas inhalation.

There were further disturbances Sunday in the Gaza Strip, where troops shot and wounded at least seven Palestinian demonstrators in severe clashes on Saturday.

A military spokesman said a gasoline bomb had been thrown at an army patrol in the city of Gaza but had not exploded and that demonstrators had burned tires and thrown stones at soldiers.

All stores in the main streets were closed in a strike to protest the killing by soldiers of four armed Palestinians last week.

The Associated Press
**Moslems carrying away a fellow protester who was overcome by tear gas Sunday on the Temple Mount in Jerusalem.**

# *Candidate's Declaration Divides Seoul Opposition*

By Clyde Haberman
*New York Times Service*

SONGNAM, South Korea — Kim Dae Jung, South Korea's most prominent opposition figure, left little doubt at a public rally here Sunday that he was running for president, following an announcement by his chief rival, Kim Young Sam, that he has entered the race.

Although Kim Dae Jung stopped short of declaring his candidacy, he is considered likely to follow with an official declaration of his own later this week, barring a reversal that seemed hard to imagine after his statements Sunday.

"The great majority of the people will want me to run," Kim Dae Jung said, in his clearest indication that he would be a candidate. "I am the one who is needed today."

On Saturday, Kim Young Sam announced his presidential candidacy, saying he was tired of weeks of fruitless wrangling and that it was time for action.

Kim Dae Jung's remarks before tens of thousands of supporters capped a troubled weekend for South Korea's political opposition. It suffered a severe split despite previous promises to stand united against a government that it denounces as a military dictatorship.

For weeks, South Koreans have been riveted by the growing rivalry between the two Kims and their obvious inability, despite frequent pledges of allegiance, to set aside old rivalries and long-frustrated ambitions to become president.

AP
**Kim Dae Jung speaking at a rally Sunday near Seoul.**

Many of their supporters have been openly dismayed by the split, believing that only a united opposition led by a single candidate could guarantee victory against the ruling party in elections expected in mid-December.

Acknowledging that he, too, was concerned, Kim Dae Jung told the crowd Sunday that the ultimate goal was to defeat not Kim Young Sam but the government party and its candidate, Roh Tae Woo. He suggested, moreover, that it was conceivable that either he or the other Kim might ultimately drop out of the race if it looked like victory was beyond reach.

"Kim Young Sam and I will cooperate in the face of military dictatorship," he said. "At the last minute, if it is needed to defeat the military dictatorship, we will make whatever sacrifice is necessary to make sure that the ruling party cannot win."

Echoing charges made the day before by Kim Young Sam, Kim Dae Jung accused the government party of having tried to buy votes by handing out gifts during a long holiday season that ended Sunday. It was the first clear signal that the opposition would charge fraud should it lose to Mr. Roh in December.

This working-class city, 15 miles (24 kilometers) south of Seoul, is a natural constituency for Kim Dae Jung, and an enthusiastic crowd filled an open field to hear him

See KOREA, Page 5

## Kiosk

### NFL Owners Break Off Talks

TYSONS CORNER, Virginia (UPI) — Management broke off talks Sunday in the three-week-old National Football League strike, calling the players' latest free agency proposal a "roadblock." Gene Upshaw, executive director of the players' union, called the owners' move "orchestrated."

The two sides met for about 35 hours over six days in this Washington suburb before Jack Donlan, the owners' chief negotiator, ended the talks Sunday as a second weekend of nonunion football was played. (Sunday NFL results, Page 21.)

Charles Waller
**Two of Asia's "little dragon" markets, Taiwan and Hong Kong, were the stars for offshore funds in the Pacific basin. Personal Investing, Pages 7-14.**



# *Arabs Fear U.S. Fleet Won't Thwart Iran*

By Patrick E. Tyler
*Washington Post Service*

ABU DHABI, United Arab Emirates — Despite two dramatic displays of military power in recent weeks, the U.S. Navy's deployment to the Gulf has failed to convince a number of Arab leaders that the American military presence will prevent what the Arab states fear most — an Iranian victory in the land war against Iraq.

According to Arab officials and advisers to the governments on the western side of the waterway, the inescapable concern controlling Arab attitudes toward the United States is Iran's enduring, belligerent presence and the potential threat it will pose when the Western fleets inevitably depart or shrink.

Iran skillfully exploits these fears in diplomatic contacts with Arab leaders, according to Arab sources, while the administration of President Ronald Reagan, already in conflict with Congress over U.S. military involvement in the Gulf, cannot guarantee the outcome of the war.

And, although U.S. military officials have been buoyed by the capabilities they have demonstrated against Iranian speedboats and mine-laying operations, navigation in the Gulf remains as dangerous an enterprise as before the Western fleets arrived, perhaps more so.

**Ronald Reagan says he will not invoke the "illegal" War Powers Act. Page 5.**

The inability of the U.S. and other Western navies to cope with dozens of attacks on unescorted merchant vessels since midsummer has raised questions about whether the United States can field "a coherent, forceful and consistent policy" in the region, as one official put it.

One key adviser to the Arab governments suggested that firm U.S. military action — such as the Sept. 21 attack on the mine layer Iran Ajr and Thursday's helicopter retaliation on Iranian gunboats — will convince Arab leaders over time of an unstated U.S. commitment to blocking an Iranian victory in the broader war.

Pentagon officials say U.S. forces are in the Gulf only to protect U.S.-flagged vessels, but they also speak increasingly of the U.S. mission to "contain the war," and such statements have further raised Arab expectations.

U.S. policy in the region has little to offer on the larger issue of containing Iran or blunting the formidable Iranian thrusts against Iraq's borders.

"The whole issue is out of focus when one talks about accompanying or escorting ships," said one Arab adviser. "The issue is the war and how to end it."

U.S. assurances on how the war will turn out are limited to promises that the Reagan administration is doing what it can at the United Nations, where the 15-member Security Council adopted a cease-fire resolution in July but has delayed consideration of an arms embargo against Iran for noncompliance.

"I don't think the war is going to stop for any of this," said one Arab adviser, who believes that Iran has been using diplomacy to buy time in preparation for a major land offensive this fall and winter.

Some Arab leaders have been privately pressing Washington to declare that the United States will not allow Iran to win the war.

These leaders also would like Mr. Reagan to elaborate on President Jimmy Carter's pledge of

See GULF, Page 5

# Japanese Are Returning to Cutting Edge of Physics

By Walter Sullivan
*New York Times Service*

TSUKUBA, Japan — A new particle accelerator, causing electrons and positrons to collide at energies higher than those of any other such laboratory, is restoring Japan's prewar position near the front rank of experimental physics.

Scientists at KEK, Japan's National Laboratory for High Energy Physics, are using the machine, the Tristan, in an effort to create elemental particles of matter. To do this, they are using the positively charged twin of the electron, called the positron.

The device is a part of Japan's increasing emphasis on basic research; its operators hope it will continue to be productive long after more powerful machines are in operation.

The achievement the Japanese are probably seeking most is creation of the elusive top quark, one of the hypothetical basic particles from which other subatomic particles are believed to be formed.

To date five quarks, including those assumed to be building blocks of the protons and neutrons in all atomic nuclei, have been observed.

They occur in three families, those with the least mass being the two quark types of which protons and neutrons are made. In addition to another two in the intermediate-mass range, one member of the pair with the greatest mass, the bottom quark, has been observed, but not the other, the top quark.

The quarks with higher mass combine to form short-lived particles normally observed only when produced in high-energy collisions.

If all efforts to produce the top quark fail, it will mean that there may be something wrong with current theories about the nature of matter, according to Satoshi Ozaki, director of the Tristan project.

Particles like the heavier quarks do not occur in the everyday world. They can only be created, and very briefly, in the fireball produced by very-high-energy collisions of subatomic particles.

The highest energy collisions are those between such heavy particles as protons and their mirror-image twins, antiprotons.

These are produced in the Tevatron of the Fermi National Accelerator Laboratory in Batavia, Illinois. Their collisions generate an enormously complex spray of atomic fragments, making it difficult to tell whether a top quark lies hidden in the debris.

Electron-positron collisions, like those in the Tristan, avoid this problem by using particles that, so far as is known, have no internal structure and no mass. They are dimensionless points.

Because they are of opposite charge, radio waves that accelerate electrons in one direction push positrons in the opposite one.

The Tristan can therefore simultaneously boost both kinds of particles in opposite directions in the two-mile (three-kilometer) ring in which they are accelerated.

The counter-rotating electrons and positrons collide head-on in four experiment areas uniformly spaced around the ring.

The Tristan is boosting the beams to 26 billion electron volts, or giga electron volts (Gev). This autumn the energy should increase to 28 Gev, and by next summer added superconducting magnets are expected to raise the energy to between 30 and 33 Gev.

With the Tristan and other machines, the Japanese are seeking to re-establish

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# *For Soviet Travelers, Bad Trip Is About the Only Kind*

By Philip Taubman
*New York Times Service*

MOSCOW — Aeroflot flight 3868 was ready for takeoff from Irkutsk, eastern Siberia's largest city.

Already seven hours late on a 4,000-mile (6,500-kilometer) journey from the Black Sea resort of Sochi to the Far East city of Khabarovsk, the airliner was filled with bedraggled passengers and nearly hysterical children.

As the plane turned to face down the runway, a father sitting in the front row propped his young daughter on a narrow table hanging from the bulkhead.

A woman several rows behind reclined her seat and tossed one loose end of her seat belt over the armrest.

The open luggage rack overhead, crammed with heavy bags and packages, many sitting precariously near the edge, started to shake ominously as the takeoff began.

The cabin crew, having provided no safety information and made no effort to see if seat belts were fastened, was out of sight in the galley.

For Westerners traveling in the Soviet Union, the customs of Aeroflot, the world's largest airline, can be a puzzling curiosity. To Russians, they are an integral, and seemingly unchanging, part of the ordeal of travel.

It is an ordeal that often distills into a single moment or journey the almost unimaginable inefficiency of the Soviet economy, and it gives an idea of the monumental problems Mikhail S. Gorbachev faces as he tries to modernize Soviet society.

Philip Taubman/The New York Times
**Soviet travelers, such as these in a Moscow train station, often face long, crowded delays.**

Foreign visitors who complain about uncomfortable planes and sanitized tours in the Soviet Union do not realize how pampered they are by Intourist, the government agency that arranges and supervises most foreign travel.

It takes a few years of living in the Soviet Union, and traveling widely, for a Westerner to begin to appreciate the hardships that most Russians put up with when they take a trip.

A recent 10,000-mile trip from Moscow to the Soviet Far East, with stops in Irkutsk, Khabarovsk, and the Pacific port of Nakhodka, near Vladivostok, was a reminder that for Russians, moving about the Soviet Union means total immersion in discomfort.

This year, in a speech about economic problems, Mr. Gorbachev pointedly said: "We cannot put up with an unsatisfactory situation in passenger transport."

Aeroflot service has come under criticism, and, according to airline officials and newspaper reports, the airline is making changes to better accommodate passengers. The Ministry of Railroads and other agencies involved in moving people have also promised improved service.

Unlike foreigners, who order their train tickets in advance and usually travel in relatively clean two- or four-person sleeper compartments, Russians face maddening delays trying to buy tickets and can spend hours, and sometimes days, waiting in overcrowded stations.

Moscow's train stations, which foreigners glide in and out of with porters carrying their bags and a bus or car awaiting them, can evoke Dickens's bleakest images of 19th-century misery.

The main stations in Moscow are perpetually filled beyond their capacity with waiting passengers, often crowded into underground waiting rooms out of sight of foreigners.

Many of the thousands camped out are victims of an inefficient ticket sales system that books one-way travel only, forcing passengers to obtain return seats when they reach their destination.

The system, the bane of Soviet rail travel, works like a giant lottery, arbitrarily dispensing tickets and leaving passengers uncertain how long they can remain where they are going and exactly when they will return.

Obtaining hotel reservations can be equally daunting. Without the

See SOVIET, Page 5

# West German Politician Found Dead

By Serge Schmemann
*New York Times Service*

BONN — A young West German politician who had been at the center of a political scandal for the past month was found dead Sunday in a Geneva hotel. The Swiss police had no immediate indication of the cause of death.

The politician, Uwe Barschel, 43, resigned as premier of the northern state of Schleswig-Holstein on Sept. 25 after a former aide said that Mr. Barschel had ordered a series of dirty tricks against his Socialist challenger in elections earlier last month.

The scandal has dominated the West German press since, with a steady progression of revelations and accusations.

Mr. Barschel, who went to the Canary Islands to vacation after resigning, was returning to the state capital of Kiel to testify Monday in a parliamentary inquiry. According to reports from Geneva, Mr. Barschel's fully clothed body was discovered at midday by a West German reporter who had come to the Beau Rivage Hotel for an interview.

Although initial West German news bulletins said Mr. Barschel had committed suicide, the police in Geneva said they had found no evidence of a bullet wound or any visible sign of violence. The police

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# Iranian Tells of Stingers

## *He Says Missiles Might Be Fired At U.S. Forces*

*The Associated Press*

WASHINGTON — The chief Iranian delegate to the United Nations said Sunday that his country had acquired U.S.-made Stinger anti-aircraft missiles.

The delegate, Said Rajaie-Khorassani, also said Iran might use the American-made missiles against the United States.

"We are prepared to use them against any enemy aircraft in the Gulf," he said, adding that U.S. forces were "enemy aircraft."

Mr. Rajaie-Khorassani, in a televised interview program, initially refused to confirm or deny statements Friday by Defense Secretary Caspar W. Weinberger and the Pentagon, both of whom said two small Iranian gunboats captured by U.S. forces in the Gulf contained equipment "believed associated with the U.S. Stinger system."

But asked again later if Iran had Stinger missiles, Mr. Rajaie-Khorassani said, "Well, let's — let us suppose that we have them."

He suggested that Iran might have acquired the missiles through a middleman, as it did when the United States sold arms to Iran and diverted profits to the Nicaraguan rebels.

"It goes back to the old stories about the dealings with the certain American middlemen," Mr. Rajaie-Khorassani said. "We could have gotten them from there." He refused to be more specific.

Vernon A. Walters, the chief U.S. delegate to the United Nations, disputed the Iranian statements but said he would not be particularly concerned if Iran did acquire Stingers.

"If they had them," Mr. Walters said on the same program, "they would have used them against the Iraqis who are raiding their cities and their military installations."

On Thursday, U.S. helicopter gunships sank one Iranian vessel and disabled two others after the vessels reportedly opened fire on an observation helicopter.

After examining the Iranian vessels, the Pentagon said that they contained equipment that included "batteries and packing material" but that no missiles were found.

The Stinger, the U.S. Army's most potent portable anti-aircraft missile, was introduced to U.S. forces in 1981. There have been persistent reports, never confirmed by the U.S. government, that some Stingers destined for the guerrillas

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# *49 Killed In Crash of Burma Jet*

*The Associated Press*

RANGOON — A Burma Airways jet exploded and crashed Sunday near Pagan in central Burma, killing all 49 aboard, including 36 foreign tourists, the government said.

Sources who refused to be named said that the foreign victims included 14 Americans, seven Swiss nationals, five Britons, four Australians, three West Germans, two French citizens and a Thai.

The crash came a day after diplomatic sources reported that police had tightened security at the U.S. Embassy following reports that an anti-American terrorist group had entered Burma.

The sources also said that U.S. diplomats had been advised to stay indoors at night. The U.S.-sponsored International School, for children of foreign diplomats, was closed Friday. No reopening date has been set.

Reporting the jet crash, the official News Agency of Burma said that other victims included nine Burmese passengers and four crew members. The crash site was about 20 miles (about 30 kilometers) southeast of Pagan, a city famed for its ancient temples. Pagan is about 300 miles north of Rangoon, the capital.

The Fokker Friendship 27 jet reportedly was on a two-hour, regularly scheduled flight to Pagan from Rangoon.

It was the second fatal Burma Airways crash in less than four months.

On June 21, all 45 Burmese on board were killed when a similar aircraft crashed into a mountain in eastern Burma, minutes after takeoff from the Shan state town of Heho, about 280 miles northeast of Rangoon. The cause of that crash was not announced.

Previous to that, the last major plane crash was in March 25, 1978, when 48 people, including 23 foreigners, were killed as a Burma Airways jet crashed five miles from Rangoon Airport.

# UNESCO Election: U.S. Stands Aloof While Awaiting Reform

*Laura Genero is a deputy assistant secretary of state for international organizations at the U.S. State Department. Talking with Barry James, an IHT reporter, she explained U.S. policy toward the UN Educational, Scientific and Cultural Organization, where the director-general, Amadou Mahtar M'Bow of Senegal, is seeking a third term in office with the backing of the Organization for African Unity. Mr. M'Bow, whose policies have caused the United States, Britain and Singapore to pull out of UNESCO, won a plurality of 18 votes last week in each of the first two ballots by the organization's 50-member executive board. If no result is reached on the third and fourth ballots this week, a fifth and deciding vote will be taken between the two leading candidates.*

Q. Why couldn't the United States get together with other Western countries to put up a convincing candidate to oppose Mr. M'Bow, one who could attract support from all directions?

A. The United States is no longer a member state and we have to act in accordance with that position. Our problems were never personalized with Mr. M'Bow as the director-general, but rather with the structure, programs and budget of the organization. We have adopted a

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policy of encouraging our allies to engage in the reform of the organization and we consult with them regularly.

Q. On Friday, the foreign minister of Pakistan, Sahabzada Yaqub Khan, who had been second in the election, withdrew from the race. Many countries that would like to see the departure of Mr. M'Bow and major reforms in the way UNESCO is run are likely to throw their weight behind the Spanish candidate, Federico Mayor. Is the United States pleased by this development?

A. As a nonmember of UNESCO we consider it inappropriate to support any candidate in the election campaign.

Q. In 1984, the United States had specific reasons for pulling out of UNESCO. It was said to be over-politicized, badly managed and its budget was going to all the wrong places. In your opinion, have there been any changes for the better at UNESCO headquarters?

A. I think there has been some movement towards reforms, which are primarily cosmetic. The things that have been adopted so far — such actions as cutting back on the length of time of speeches, cutting back the length of sessions of the executive board, and requiring the director-general's report to the executive board to be submitted in writing before oral presentation — these are not really what could be described as fundamental changes. In terms of the kind of reforms the United States is interested in, I'd have to say there has not been any fundamental change.

Q. Irrespective of whether or not Mr. M'Bow gets back in, what would it take to make the United States rejoin UNESCO?

A. We would consider rejoining only when there is evidence of fundamental institutional, programmatic and structural change. And by that I mean establishing a mechanism to give major donors greater weight in the budget and decision-making processes; depoliticization of UNESCO's programs; and concentration on its original mandate to foster international exchange in science, education and culture.

Q. Even if the administration did decide to rejoin, would Congress go along?

A. The position of UNESCO is connected to the larger picture of the U.S. government budget as a whole. This is a time of very tight budget constraints in the U.S. government. We are engaged, for example, in an effort right now to obtain full funding for those UN organizations to which we do belong, and that is a very difficult process. So it's really impossible to say if there would be any money for UNESCO at some uncertain time in the future.

Q. Some people have the suspicion that the United States would like to see UNESCO collapse anyway, that it would like to see the organization go under and be able to say, "Ha, we told you so!" Is there any truth to this?

A. The United States would always prefer to see any UN organization with problems reform and put itself on the right track. We support the UN as an institution. The United States is still the single largest contributor to the technical and specialized agencies associated with the UN. We have an abiding interest in the health of the UN and its institutions.

Q. Is UNESCO worth saving?

A. We would always prefer to see any UN organization, particularly one with which we had such an intimate involvement in the beginning, put itself on the right track. UNESCO was created by the conference of allied education ministers after World War II, and the United States took a major lead in that.

# End of Neutrality in Sri Lanka

### *Tamil Violence Prompting India to Turn Against Rebels*

By Steven R. Weisman
*New York Times Service*

NEW DELHI — The sharp violence in Sri Lanka this week has forced India to shift its position dramatically in the long ethnic conflict and side militarily with the Colombo government. After years of sympathizing with ethnic Tamil rebels, India appears ready to train its own guns on them.

In the view of experts in India, this development was the last thing Prime Minister Rajiv Gandhi wanted when he negotiated a peace accord for Sri Lanka last summer. It poses risks of tying up Indian

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forces in a guerrilla conflict, aggravating divisions at home and raising suspicions in other countries in the region.

Since the accord was signed July 29, New Delhi has tried to be neutral in the conflict between the Tamil guerrillas and the ethnic Sinhalese majority. India's abrupt transformation from good neighbor to neighborhood policeman came Wednesday, after Tamils violated an already shaky peace by killing more than 150 ethnic Sinhalese in the north and east.

"India has got to crack down on the Tamils, or the Sri Lanka accord will unravel," a Western diplomat said. "If India doesn't act, there will be a terrible backlash, and Sri Lanka will order the Indians out. If that happens, it's all over."

A total of 15,000 Indian troops are in Sri Lanka as part of the agreement worked out after months of negotiations between Mr. Gandhi and President Junius R. Jayawardene of Sri Lanka.

Under terms of the agreement, Tamil rebels were to abandon their struggle to set up Tamil Eelam — an independent nation in northern and eastern Sri Lanka — and hand over their weapons to the Indian Army. In return, India guaranteed that Sri Lankan armed forces would withdraw from Tamil-dominated areas and grant the Tamils more political autonomy, including some control over the police.

The peace accord was hailed as a diplomatic solution to a conflict in which 6,000 people have died in the last four years. But the latest developments in Sri Lanka have started a debate here about the wisdom of India's intervention.

For now, it appears that the weight of public opinion is in favor of India's acting against the Tamil rebels, who are widely deemed to have betrayed their pledges to India that they would lay down their arms and accept the terms of the Sri Lankan accord.

In an editorial Thursday, The Hindustan Times called on the Indian Army to "disarm the militants" and, if necessary, send still more troops to Sri Lanka. The editorial said India had "no option but to put down its violence with a firm hand."

But others warned that India could get caught up in a situation beyond its control.

Mr. Gandhi is said by his aides to be directing his efforts at saving the Sri Lanka accord. The prime minister, his aides are known to believe, cannot afford to see it collapse, especially because he has been politically damaged by the failure of well-publicized accords with dissidents in India.

The most prominent of these domestic agreements was reached in 1985, when Mr. Gandhi negotiated a settlement with Sikhs in the northern state of Punjab. Like the Tamil separatists in Sri Lanka, the Sikh extremists were fighting for an independent nation. The Punjab accord failed to bring an end to the killing.

Analysts say the Sri Lanka accord this year contains the same basic weakness that led to the demise of the Punjab agreement: it was not signed with the parties in a position to end the violence.

The Sri Lanka accord was signed, not with the Tamil guerrillas, but with the Sri Lankan government, which had failed to crush their rebellion in four years of warfare. The Tamil guerrillas rejected the agreement from the outset but said they would respect its terms out of deference to India.

India had leverage over the Tamils because for many years the rebels have used southern India as a sanctuary, training base and arms supply center.

In recent years, however, India has worried about the precedent of a separatist movement succeeding in Sri Lanka, not least because New Delhi has had a tough time suppressing such movements at home. Mr. Gandhi has been constrained, however, because of the deep sympathy for the civil rights of Sri Lankan Tamils among the 50 million Tamils who live in southern India.

Many experts say they fear that Tamils in India would protest any killings of Sri Lankan Tamils by Indian forces, perhaps reviving a secessionist movement of their own, which was strong 20 years ago.

## *Indian Troops Said to Kill 120 Tamil Rebels*

*The Associated Press*

COLOMBO, Sri Lanka — Indian troops, using heavy artillery and mortars, killed as many as 120 Tamil rebels during a weekend offensive on the Jaffna Peninsula, Sri Lankan officials said Sunday.

Fifteen Indian soldiers were also killed in the fighting, according to Indian officials and news reports.

The Tamil rebels, seeking to establish an independent nation, have been blamed for the deaths of more than 200 people in the past week. Most victims were civilians from the Sinhalese community, the majority ethnic group that controls the government and the military.

About 15,000 Indian soldiers have been sent to Sri Lanka to try to disarm the rebels and enforce a peace plan signed in July by India and Sri Lanka.

Mark Avery/Reuters
**Foreign reporters and travelers in Lhasa tune in to news of their expulsion on Tibetan TV.**

# China Broadens Charge, Links 50 Foreigners to Riot in Lhasa

*Reuters*

BEIJING — An official Chinese press agency report said that about 50 foreigners had been directly involved in a riot in the Tibetan capital of Lhasa on Oct. 1 in which at least six people died.

The allegation Saturday that the 50 foreigners took part in the disturbance goes far beyond what China has said previously.

[President Li Xiannian criticized the U.S. Congress on Sunday for recent remarks on China's handling of unrest in Tibet, United Press International reported from Beijing. Mr. Li referred to a recent appearance before a Congressional subcommittee by the Dalai Lama, Tibet's exiled spiritual leader.

["The U.S. Congress can only look after U.S. affairs and has no right to interfere in other countries' internal affairs," Mr. Li said.

[His comments represented Beijing's highest-level criticism yet of what it describes as foreign meddling in the Tibet issue.]

Xinhua, the official agency, quoted a Lhasa police officer as saying that "at least 50 foreign tourists or foreign nationals in the capacity of tourists were spotted among the leading rioters attacking the Bajiaojie police substation."

The Xinhua report also quoted the policeman as saying the foreigners were "throwing stones at the policemen, taking photos or inciting the rioters for further violence."

Four Westerners, including two Americans and a Briton, have admitted to reporters that they hurled stones during the riot, which began after the arrest of monks who had marched around a temple chanting pro-independence slogans.

The People's Daily in Beijing said Oct. 4 that two foreigners had been involved in the riot. Two Americans were ordered to leave China by Saturday for having Tibetan flags in their possession.

Fifteen foreign journalists were ordered out of Tibet by midnight Friday after Chinese officials accused them of breaching travel regulations. Tibet Foreign Affairs Office director Yu Wuzhen also told U.S. diplomats in Lhasa on Friday that journalists had been involved in "unfriendly activities."

An American traveler arriving in Katmandu on Saturday said tension was still high in the Tibetan capital. He reported three roadblocks manned by soldiers on the 90-minute drive to the Lhasa airport.

**■ Support From Foreigners**

*Daniel Southerland of The Washington Post reported from Lhasa:*

The backpackers and travelers who make up a large part of the Lhasa's foreign community seem to be of one mind in their support of anti-Chinese sentiment here. Most do not stay for long, but several have become involved in the lives and causes of some Buddhist monks and lay Tibetans.

Many observers believe that this support has prevented the Chinese from more severe crackdowns after the protests.

Foreigners staying in those hotels catering to backpackers have organized nightly meetings to discuss events and to share information about travel restrictions.

The type of information disseminated at these meetings ranges from accounts of harassment by Chinese police to reports of roadblocks en route to other cities in Tibet.

Two Americans who befriended monks from the Sera monastery north of Lhasa were invited to the monastery recently to photograph the bodies of two monks who they were told had died in rioting Oct. 1.

Monks told the Americans they wanted proof that the two had died of gunshot wounds.

Another American, Blake Kerr of Buffalo, New York, a recent medical school graduate who has been traveling in China for about two months, witnessed the Oct. 1 violence.

He said he has been giving "very basic first aid" to victims with gunshot wounds, burns and contusions.

# U.S. Reluctance to Pay Its Full Share Could Cripple UN Force in Lebanon

By Paul Lewis
*New York Times Service*

UNITED NATIONS, New York — The United Nations peacekeeping force in southern Lebanon faces what could be a crippling financial crisis as a result of moves in the U.S. Congress that threaten to cut off all American money for the operation, according to UN officials and diplomats.

The nine countries contributing soldiers to the force — France, Finland, Fiji, Ghana, Ireland, Italy, Nepal, Norway and Sweden — have protested to the White House over the U.S. failure to pay its full share of the cost of the force this year and the possibility that it will fail to contribute at all next year, the officials say.

The force of 5,700, known as the United Nations Interim Force in Lebanon, or Unifil, is the largest UN peacekeeping operation. It was deployed in 1978 at the insistence of the United States after the Israeli invasion of southern Lebanon that March.

For the coming year, the U.S. Senate has refused to approve any money toward the United States' \$49 million share of Unifil's \$140 million annual cost. The U.S. House has voted to appropriate \$18 million, an amount that is in line with what President Ronald Reagan had requested and at the level of what the United States paid last year.

Explaining its action on the force, the Senate said in a budget report that it "continues to believe Unifil is an ineffective and symbolic force."

If the United States refuses to pay anything toward Unifil's cost this year, diplomats and officials say, the United Nations will have to ask countries contributing soldiers to pay even more of the costs. Some of them may refuse and pull their troops out.

**■ Israelis Hit Bekaa**

Israeli Air Force planes have attacked Palestinian guerrilla bases in the Bekaa region of eastern Lebanon, close to the border with Syria, The New York Times reported from Beirut.

An Israeli Army spokesman said direct hits were scored Saturday at what he called terrorist targets, but the Palestine Liberation Organization said the jets missed the largest guerrilla camp in the area.

**■ War Victims to Protest**

People crippled or blinded in Lebanon's civil war will hold a four-day march across the country starting Monday to protest 12 years of strife that has maimed some 50,000 people, Reuters reported from Beirut.

A spokesman for the Lebanese handicapped movement said, "This is a demonstration for peace and human rights in Lebanon."

# WORLD BRIEFS

## 4,500 Salvadoran Refugees Returning

EL POY, El Salvador (Reuters) — About 4,500 Salvadoran refugees have begun returning from Honduras and should be across the border by Sunday, refugee aid workers said.

The refugees had been asking to return since January. Their effort was boosted by the Central American peace accord signed in August. The accord calls for an end to regional wars and urges governments to help refugees go home.

The refugee accord was reached at a meeting Friday night between the Salvadoran government, military and the United Nations High Commissioner for Refugees. The refugees are returning to areas that are still suffering from the Salvadoran civil war, in which at least 63,000 people have died and in which about a million people have fled their homes.

## Jackson Formally Enters '88 Race

RALEIGH, North Carolina (AP) — The Reverend Jesse L. Jackson has formally begun his second campaign for the presidency, declaring here in his native region that the new, liberated South can "lead America to its loftiest and highest ideals."

At a foot-stomping, revival-style meeting Saturday, Mr. Jackson said his candidacy for the Democratic Party's nomination offered "bold leadership and a new direction" for a nation led astray by the Reagan administration.

"There is something wrong with our government's priorities today; its values are wrong," he said. "It wears a military fig leaf to cover its impotency." As in 1984, Mr. Jackson is the last major Democratic candidate to formally enter the race. He joins five others in seeking the party's nomination.

## Spy May Still Be in Sweden, Police Say

STOCKHOLM (AP) — A convicted Swedish spy, sought throughout Europe after slipping away from police here last week, may still be in Sweden, the police said Sunday. Calls mounted for the minister of justice to resign over the affair.

Stig Bergling, who was serving a life sentence for selling military secrets to the Soviet Union, escaped when he was left without surveillance during an overnight leave with his wife. The police said one of three cars apparently used in his escape was found Sunday in a Stockholm suburb, contradicting earlier theories that he and his wife had fled to the Soviet Union through Finland, where another car had been found.

The escape added to the problems of Sweden's police forces, who were widely criticized for failing to find the assassin of Prime Minister Olof Palme. Opposition newspapers repeated on Sunday calls for Justice Minister Sten Wickbom to resign, and two leading representatives of Mr. Wickbom's party, the governing Social Democrats, suggested in an open letter that he step down.

## Karpov Draws White for First Game

SEVILLE, Spain (Reuters) — Anatoli Karpov, the challenger in the world chess championship match, scored an initial tactical advantage by drawing white at the opening ceremony against the titleholder, Gary Kasparov.

The draw Saturday night gave the 36-year-old former champion the advantage of playing the first move in the opening game Monday afternoon. The match is a 24-game series, with victory going to the first player to score 12.5 points.

In their three previous encounters, Mr. Kasparov, 24, has drawn white only once, in Moscow in 1985. He won the first game and went on to win the match, deposing Mr. Karpov from the throne he had occupied for a decade. Their first match was declared a draw in February 1985 after 48 games, and Mr. Kasparov won a return match with Mr. Karpov that began in the summer of 1986.

## Italy Coalition Wins Education Vote

ROME (Reuters) — The five-party coalition government of Prime Minister Giovanni Goria has avoided a crisis by reaching a last-minute agreement on modifying religious education in schools. The modifications had been opposed by the Vatican.

The Christian Democrats, Socialists, Republicans, and Social Democrats agreed to vote with Mr. Goria on Saturday, but the Liberal Party abstained, parliamentary sources said. The government won the vote in the Chamber of Deputies 286-234 after a night of negotiations between Mr. Goria and coalition members who were angry at what they considered to be his bowing to the Vatican.

The Vatican objected officially last week to the proposed changes, which will allow schools to schedule religion classes at the beginning or end of each school day. The Vatican said the changes violate the 1984 revision of the Vatican Concordat, which regulates relations between the church and Italian state. The concordat for the first time gave parents the right to choose whether their children should attend religion classes and the supplementary accord laid down the specific conditions.

## U.S. Budget Cuts Won't Hit Soldiers

WASHINGTON (NYT) — President Ronald Reagan has notified Congress that the Defense Department would exempt the pay and benefits of military personnel from the cuts that have to be made under the revised law to balance the budget.

Designating that exemption means that the Pentagon must absorb up to \$11.5 billion in budget cuts elsewhere, primarily in operations and readiness and, to some extent, in the development and procurement of weapons and equipment.

The decision, based on a recommendation by Defense Secretary Caspar W. Weinberger, seemed certain to be greeted with approval by senior military officers, who have consistently maintained that taking care of the troops must come first. But privately, those same officers have lamented the prospect of the alternative cuts, saying many gains in the pace of operations, in making the forces ready for combat and in the acquisition of modern weapons will be severely reduced.

## For the Record

**Police in Wackersdorf, Bavaria,** used tear gas and truncheons Saturday to disperse about 20,000 West German demonstrators protesting a nuclear waste recycling plant under construction there, officials said. At least 10 protesters were injured. *(AP)*

**King Hussein of Jordan and President Hosni Mubarak of Egypt** met in Cairo on Sunday. The two leaders have met regularly since Jordan resumed relations with Egypt in 1984 after a five-year break. *(Reuters)*

# TRAVEL UPDATE

**Eight unions have called for a strike at Air France** on Thursday, the day of a civil service walkout, to press for maintaining the purchasing power of all present and retired employees, and for maintaining what they call the company's "public service mission." *(AFP)*

**A British Airways Concorde jetliner** carrying almost 100 people ran dangerously short of fuel while circling over London in an air traffic stack-up Wednesday but landed safely after it was given emergency priority, the weekly newspaper The Observer reported Sunday. *(UPI)*

## This Week's Holidays

Banking hours and government services will be closed or curtailed in the following places this week because of national and religious holidays:

**MONDAY:** Argentina, Bahamas, Belize, Brazil, Canada, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Fiji, Guam, Guatemala, Honduras, Mexico, Panama, Paraguay, Puerto Rico, Spain, the United States, Uruguay, Venezuela.

**TUESDAY:** Iran.

**WEDNESDAY:** North Yemen, Zaire.

**THURSDAY:** Israel, Tunisia.

**SATURDAY:** Haiti, Malawi.

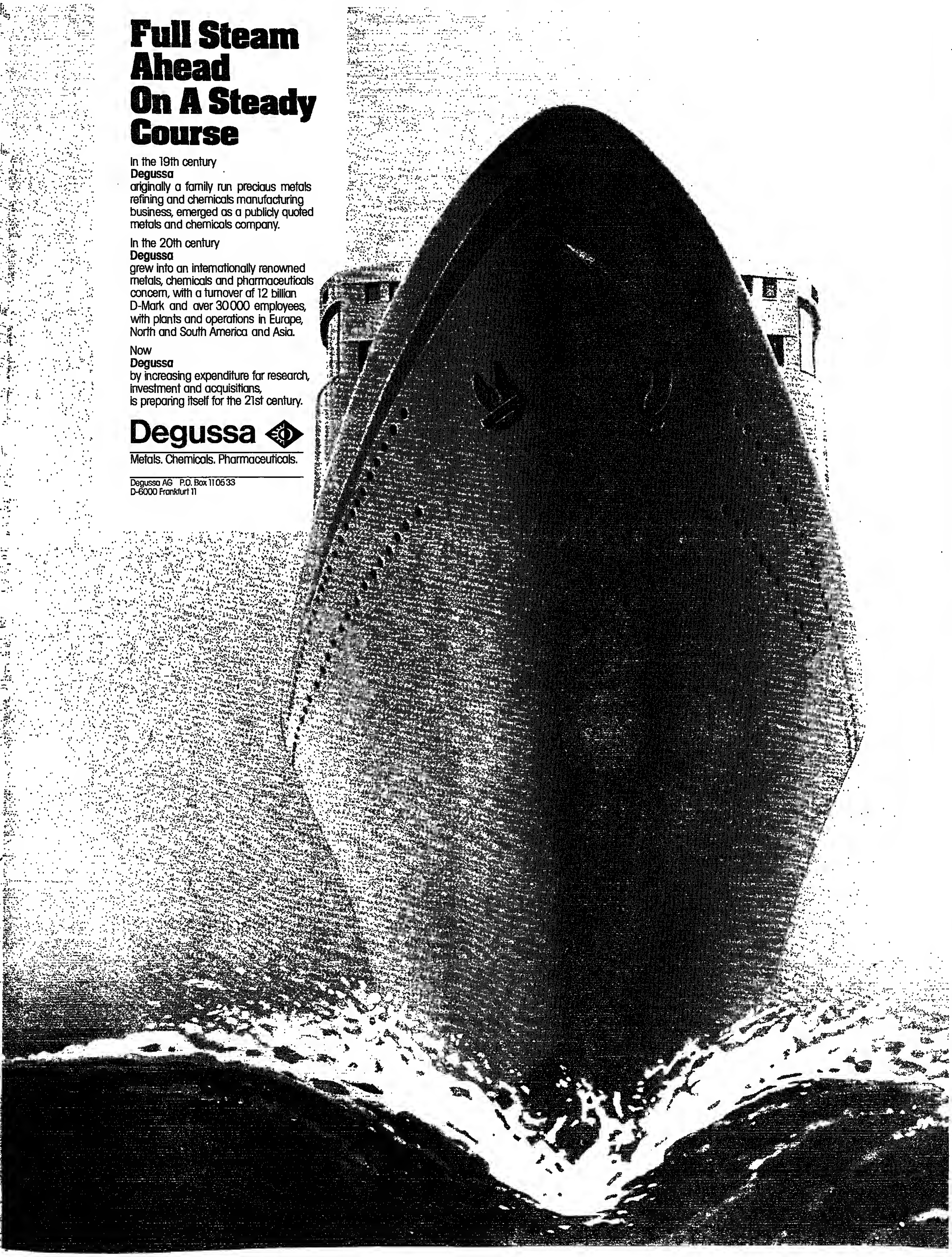
*Source: Morgan Guaranty Trust Co., Reuters.*



## DOONESBURY

INTERNATIONAL HERALD TRIBUNE CENTENNIAL 1887 1987

One of a series of messages from leading companies of the world appearing during the IHT's anniversary year.



# GM and GE Seek Right To Launch Satellites From Soviet Rockets

By William J. Broad
*New York Times Service*

NEW YORK — Two major U.S. companies are battling the government for the right to launch communications satellites on Soviet rockets.

The companies, General Motors and General Electric, have formally asked the government to drop its ban on the launching of U.S.-made satellites by Soviet rockets. Both concerns have subsidiaries that make and market space satellites.

In response to the companies' increasingly vigorous campaigns, involving both public and private lobbying, the Reagan administration has stiffened its opposition to the private hiring of Soviet space services.

The clash comes at a time when the U.S. space program is without rockets to send commercial satellites into space and the Soviet Union has stepped up efforts to make commercial use of its own space program, which until recently was shrouded in secrecy.

U.S. companies say they are seeking the lowest prices and best services and are worried that foreign rivals may take advantage of the Soviet offers.

"We could be at a grave disadvantage," said John E. Koehler, president of Hughes Communications, a GM subsidiary that markets communications satellites.

James M. Beggs, former administrator of the National Aeronautics and Space Administration, said government policy should be reversed.

"Satellite producers, if they are comfortable with the risk of doing business with the Russians, should be allowed to get launchers wherever they want," he said. "The Soviets are offering a service that other people already offer. There's lots of international competition."

Government officials insist that commercial factors should take a back seat to issues of foreign policy and national security.

"It's not in the U.S. national interest to issue export licenses for satellites," said Robert B. Mantel, an official in the State Department's bureau of political-military affairs, who argued that Western technological secrets might fall into Soviet hands.

Representative Bill Nelson, Democrat of Florida, who heads the House Space Science and Applications Subcommittee, and whose district includes the Kennedy Space Center, said the deeper issue was whether freedom to use Russian rockets would doom the fledgling commercial rocket industry in the United States.

"I'm astounded that people think of Russian rockets as an alternative," he said. "That would blast any chance of a commercial launch industry succeeding here. The solution is to get American vehicles to be competitive in price, if necessary with subsidies from the American government."

Mr. Nelson's subcommittee recently held hearings on the health of the rocket and satellite industries.

The dispute is fueled by the continuing repercussions of last year's space disasters. After the space shuttle Challenger exploded, President Ronald Reagan ordered an end to the launching of commercial satellites by the shuttles. Two other types of U.S. rockets also exploded upon takeoff last year, grounding another part of the rocket fleet used to send satellites aloft.

Experts say it could be several years before the United States forms a private rocket industry that can catch up with the demand for commercial launchings. While a few U.S. companies are developing private launching services, and some, including Martin Marietta and McDonnell Douglas, are even signing up customers, none has built any rockets. It will be 1989 at the earliest before they can begin to fulfill the contracts, experts said.

General Electric, whose Americom division sells communications satellites, recently told Mr. Nelson's subcommittee that the government ban should be reconsidered because access to Soviet rockets would help the industry survive the problems of U.S. rocketry and lower costs.

"The U.S. should seriously investigate whether commercial satellite operators should be allowed to use the services of the Proton," Eugene F. Murphy, GE's senior vice president for communications and services, told the subcommittee. Proton is the main Soviet rocket.

Mr. Murphy dismissed fears that high technology would fall into Soviet hands, saying, "We believe these concerns can be overcome and that U.S. satellites can be satisfactorily fitted and launched without giving away hard-won technological knowhow."

The world's largest maker of communications satellites, Hughes Aircraft Co., which is owned by GM, the world's largest corporation, echoed those sentiments.

"To be competitive, we must consider procuring launch vehicles overseas," Steven D. Dorfman, Hughes' vice president of space and communications, told the hearing.

# Soviet Rejects U.S. Account Of Arms Deal

By Michael R. Gordon
*New York Times Service*

WASHINGTON — Soviet officials have publicly disputed the American account of a compromise worked out last month on West Germany's Pershing-1A missiles.

The Soviet statements, which were made Friday at a news conference at the Soviet Embassy in Washington, came a day after American officials said Soviet negotiators were backing away from the compromise reached by Secretary of State George P. Shultz and the Soviet foreign minister, Eduard A. Shevardnadze.

The issue of the West German missiles, the warheads of which are controlled by the United States, was considered the last major hurdle to a Soviet-American accord banning medium- and shorter-range nuclear missiles.

Sergei D. Chuvakhin, a Soviet Embassy counselor, said that the question of a timetable for dismantling the 72 shorter-range West German missiles was not dealt with in the talks last month and that it now needed to be settled in treaty negotiations in Geneva.

"All types of shorter-range missiles, including German Pershing-1A missiles, should be included in the agreement," Mr. Chuvakhin said. "We think it is a reasonable position."

This statement was consistent with a recent Soviet proposal in Geneva that Moscow be allowed to maintain some of its shorter-range missiles until the West German missiles are dismantled.

But American officials again said that the two sides resolved the entire issue of the West German missiles by working out a compromise formula last month and that the issue should not be reopened.

Under the compromise formula, the United States provided the Russians with an assurance outside the formal treaty that the American warheads for the West German missiles would be dismantled once Bonn carried out its pledge to eliminate its missiles.

The United States does not want the treaty to cover the West German missiles because it does not want to set a precedent for including the nuclear weapons of allies in future negotiations.

An administration expert said the compromise was reflected in the records of the negotiating sessions last month.

He said the working group of American and Soviet arms control experts prepared a list of agreed points and remaining questions. The question of what should be done with the West German missiles was not among the list of unresolved questions, the administration expert said.

The Associated Press

Brazilian anti-nuclear protesters demonstrating in Goiânia, where radioactive powder has contaminated 24 people.

# Major Radiation Accident Shocks Brazil

By Marlise Simons
*New York Times Service*

RIO DE JANEIRO — Experts from the United States, the Soviet Union and elsewhere have rushed to Brazil to assist after a radiation accident proving to be the most serious of its kind in the Western Hemisphere.

A broken capsule of cesium 137, a highly radioactive material, has contaminated at least 24 people, eight of whom have been hospitalized and are in critical condition. The contamination occurred in Goiânia, Goiás State, in southeastern central Brazil, early last month but was only reported later in the month.

Cesium 137 is commonly used in the form of powder or pellets to give a radiation dose to cancer patients, and it also has wide application in industry. Produced in nuclear reactors, it is one of the lethal substances that escaped during the Chernobyl nuclear disaster in the Soviet Union.

The material escaped when workers in a scrap metal yard smashed open a lead capsule containing cesium that was part of a hospital irradiation machine. The machine had been left behind when the Goiânia Institute for Radiology moved. Several young men found it and hauled it to a scrap metal dealer, Devair Alves Ferreira, 33, who bought it.

The accident was reported to authorities after the family of Mr. Ferreira and his relatives and neighbors showed serious burns and became violently ill. Scientists said the federal government was slow in recognizing the magnitude of the emergency.

But, as the panic rises, President José Sarney has ordered an investigation to punish all those responsible, including the doctors who abandoned the irradiation machine. Scientists have also faulted the National Commission for Nuclear Energy.

Two American doctors with expertise in radiation emergencies and a Soviet doctor who treated Chernobyl patients are among the foreign advisers in Goiânia.

Technicians using geiger counters and other instruments are still seeking to track and clean up the contamination. The radioactive material is in a troublesome form, a powder, which apparently has blown through an entire neighborhood.

The contamination began when Mr. Ferreira's workers found the shiny bluish cesium dust which, they later told doctors, glowed in the dark. It attracted the Ferreira children, who handled it and spread it around the neighborhood.

Authorities have blocked off an area of 2,000 square yards where they said adults and children, homes, yards, cars and domestic animals have been exposed to varying doses of radiation.

Government nuclear experts said they had found seven highly contaminated areas.

The high-level radioactive waste from 25 homes and from several hospitals where victims of the accident have been treated will be buried at a designated site in the Amazon basin, the experts said.

# Poland Will Vote on a 'Radical' Plan for Economy

By Jackson Diehl
*Washington Post Service*

WARSAW — Poles will vote in a national referendum in November on whether the government should put into effect a "radical version" of consumer price increases that would triple inflation, government officials said Saturday.

Prime Minister Zbigniew Messner gave parliament a detailed plan to reorganize the Polish economy, including steps to expand private enterprise, make state-owned enterprises autonomous from most central controls and raise Polish wages and prices to world market levels.

An initial package of legislation submitted to parliament Saturday calls for the consolidation or abolition of 16 government ministries and the dismissal of 3,000 to 3,500 of the 12,000 government workers responsible for central management of the economy. About 100 of 194 government officials at the level of vice minister or above also would lose their jobs.

Mr. Messner told parliament that the new policies, the most ambitious undertaken by the government of General Wojciech Jaruzelski since it suppressed the Solidarity labor union in 1981, had been inspired in part by the initiatives of the Soviet leader, Mikhail S. Gorbachev.

But government officials and economic experts said Warsaw's measures were far more radical than those adopted by the Soviet leadership earlier this year.

At the same time, officials said they were deeply concerned about public reaction to the package and especially to efforts to raise prices.

Although asserting that Poles would not suffer a fall in living standards, officials said Saturday that the public would have to accept hardships and sacrifices as huge state subsidies for goods were drastically cut back and controls on prices removed.

In a press conference, the leading architect of the package, Deputy Prime Minister Zdzisław Sadowski, said that in a national referendum planned for Nov. 29, Poles would be able to vote on whether to carry out the radical restructuring advocated by the government. If approved, he said, the plan could lead to an inflation rate of up to 57 percent next year, compared with a rate now reported by the authorities to be 18 percent.

The parliament, called the Sejm, voted to authorize the referendum Saturday. But approval of the specific content of the resolution to be put to voters was postponed.

Mr. Sadowski said the salaries of most Polish workers would also be drastically increased, compensating for most of the price rises. He said, however, that public reaction to the shift could be strong and might force abandonment of the plan.

In addition to the cutback of the bureaucracy, measures planned before the end of this year include removing central controls on businesses organized as cooperatives, allowing citizens to buy bonds from state companies and improving incentives for foreign capital to invest in joint ventures with Polish companies.

Mr. Messner also said Poland hoped its new program would persuade the International Monetary Fund to grant the country a structural adjustment program in the coming months, including major new IMF and World Bank credits. Poland needs the money to manage the payment of its huge foreign debt, officials said.

According to the timetable, changes next year would remove some of the controls on starting and maintaining private businesses, create a commercial banking system, abolish the state monopoly on agricultural procurement and wholesale trade and introduce personal income taxes.

Officials said government officials dismissed under the program might be given pensions or offered opportunities to start their own private businesses.

# Defector Says Cuban Pilots Practice for Strike on U.S.

By Joseph B. Treaster
*New York Times Service*

WASHINGTON — A Cuban Air Force general who defected to the United States five months ago says Cuban combat pilots regularly practice for retaliatory strikes against a U.S. Air Force base in Florida.

The defector, Brigadier General Rafael del Piño Díaz, a former deputy commander of the Cuban Air Force, said in an interview that the training was strictly defensive and that Cuba had no intention of starting a fight with the United States.

There is nothing to indicate that a U.S. military confrontation with Cuba is in the offing, but foreign affairs and military experts say they cannot rule out the possibility of a limited clash.

The Florida target designated in secret Cuban plans, General del Piño said, is Homestead Air Force Base, south of Miami.

U.S. strategists had recognized that Cuba, with the largest air force in Latin America, had the ability to strike targets in Florida. But a spokesman for the Defense Department and a State Department official said the United States had not previously been aware of such a specific plan.

Ramón Sánchez-Parodi, the chief of Cuba's diplomatic mission in Washington, said he could not comment on Cuban military training or how Cuba might react to an attack.

# Senator Warns Reagan On Future Court Choice

## Cranston Says Nominee After Bork Won't 'Sail Through' Confirmation

*The Associated Press*

WASHINGTON — A prominent Senate Democrat warned Sunday that the White House should not assume that the apparent defeat of Judge Robert H. Bork as a nominee for the Supreme Court will mean the next nominee can expect swift approval.

"I don't think anybody should share the illusion," said Senator Alan Cranston of California, "that the next nominee will sail through like a greased pig no matter what that nominee may be like."

"We'll take a hard look at the nominee," Mr. Cranston, the assistant majority leader in the Senate, said in a television interview.

Judge Bork surprised members of Congress and, apparently, the White House when he said Friday that he would continue his fight for the nomination, even though a majority of senators are publicly opposed to his confirmation.

White House strategists have indicated that they are hoping for quick confirmation of a new conservative nominee after the Senate votes on Judge Bork later this month.

The White House and supporters of Judge Bork in the Senate are working on ways to gain political points from the showdown in the full Senate, even though they consider confirmation a lost cause.

"We're not going to win the Bork nomination," said Senator Bob Dole of Kansas, the body's Republican leader. "We're going to convince a lot of Americans, though, that the process was not fair."

"They did a political job on Judge Bork," Mr. Dole added in the same television interview.

Justice Department and White House officials met Saturday to discuss strategy in the Bork fight, a Reagan administration official, speaking on the condition of anonymity, said Sunday. The official said the meeting was one of several officials have held to help "frame the debate," even though there is little hope of victory.

"The chances of winning are the longest of shots," the official said. "It's important to have the debate to form arguments about the future of the nomination process and not just to focus on the next candidate."

■ **Role of Bork Philosophy**

*Al Kamen of The Washington Post reported earlier:*

Judge Bork's decision to continue his struggle for confirmation is consistent with his life's credo to "wreak yourself upon the world," an approach, he says, that pushed him to be a force in public debate and never to cower before public disapproval.

The decision may have surprised official Washington, including the White House. But it was in keeping with the philosophy that led Mr. Bork from his early days as an academic to challenge widely held principles of law and to become one of the most controversial figures in his field.

"He did the right thing for Robert Bork," said a Washington lawyer, A. Raymond Randolph, a close friend and adviser who was with the judge as he grappled with his options this week. His wife, Mary Ellen, was a consistent advocate for staying the course, sources said.

"There was a consensus among everyone that it was a personal decision for him to make," Mr. Randolph said. "He listened to arguments on both sides. The way he has acted throughout this is the way one would have expected a judge to act. He listened and considered and came to his decision."

During a week of meetings and telephone conversations with friends and advisers, Judge Bork was told that "enough was enough," that if he did not withdraw from the nomination he would be delaying the next nominee for the Supreme Court vacancy and that there was no reason to continue what was widely seen as a futile battle.

He also was told that the sympathy many senators felt for him would evaporate if he plunged the Senate into a bitter confirmation debate.

But Judge Bork, visibly upset by the campaign waged against him, did not want to give up.

"I think he is doing this because he knows that if he withdraws now, the distorted process against him will have been successful," an adviser said. "He may not know what is coming but he knows he's doing the right thing and important thing."

# AMERICAN TOPICS

Scott Stewart/The Associated Press

**HOMOSEXUAL NUPTIALS — Homosexual couples cheered and threw rice at a mass weekend "wedding" ceremony in Washington in a protest of religious and social barriers against their romantic relationships. The police estimated that 5,000 people gathered for the brief ceremony. It was conducted by the Reverend Deana Bachelor, a metaphysical minister and hypnotherapist who stood on a platform beneath an arch of balloons.**

## More Hospitals Buy Doctors' Practices

More and more U.S. hospitals are buying up doctors' practices. The doctors then send all their patients to those hospitals. The American Hospital Association says 20 percent of hospitals have bought at least one practice and thus increased their revenues, from $2.2 million a year for practices of Northeastern heart surgeons to $76,000 a year for Midwestern ophthalmologists.

Dr. Sidney M. Wolfe, director of Public Citizen Health Research Group, a consumer organization in Washington, says in an article for The Washington Post that hospitals have at least 200,000 too many beds and "each empty bed means about $240,000 in lost revenue a year."

The price paid to the doctor can vary from $25,000 to $4 million. In some cases the doctor continues to collect fees from patients. In others the doctor and his or her office staff become salaried hospital employees.

The American Medical Association's new president, Dr. William S. Hotchkiss, approves of the trend: "This hospital ownership won't decrease our desire to provide quality care."

But Arnold Relman, editor of the New England Journal of Medicine, says the trend "is basically in conflict" with the doctor's "obligation to act as the patient's agent and trustee."

Dr. Wolfe writes that "doctors may tend to hospitalize patients more readily" and that brokerage fees and sale prices "are likely to add new costs to our already overpriced health care system."

## Short Takes

**Alaska puts at least 25 percent of its oil earnings** into the state Permanent Fund against the day when the oil runs out. Half the fund's earnings each year become dividends paid to state citizens. The fund now totals nearly $9 billion, and this year's cash giveaway amounted to $708.19 for every resident.

**Remember Bretton Sciaroni,** the lawyer who wrote the legal opinion asserting that the law limiting aid to the Nicaraguan rebels did not apply to the National Security Council? The New York Times reports that the Senate Foreign Relations Committee has identified the lawyer who wrote the Heritage Foundation paper that was the basis for the Reagan administration's much-disputed interpretation of the 1972 anti-ballistic missile treaty. He is not Abraham Sofaer, the State Department counsel whose name had been connected with it earlier, but the selfsame Mr. Sciaroni. Mr. Sciaroni has acknowledged failing his bar examination four times.

**Shorter Takes:** Lee Marvin, the tough-guy actor who died of a heart attack Aug. 29 at the age of 63, has been buried with full military honors at Arlington National Cemetery. As a marine in World War II, he made 21 Pacific island landings and was wounded on Saipan. ● Holders of doctors' degrees average $3,265 a month in salary; of masters' degrees, $2,288, according to the U.S. Census Bureau. College graduates make $1,841, nongraduates $1,169, high school graduates $1,045 and high school dropouts $693. ● After 196 years The Old Farmer's Almanac is predicting not only the weather but consumer trends. The 1988 edition is big on girdles, thread bikinis, fast cars, Victorian wallpaper and exotic pets, cool on skiing and wine coolers.

## Notes About People

**Marlo Thomas, 43, actress and feminist, told a women's forum in** Mobile, Alabama, that her husband of seven years, Phil Donahue, 51, a daytime television talk-show host, is "the greatest husband of the Western World, and he's nothing to brag about."

**Bill Cosby,** the television comedian, likes to hand out cigars, but "you have to promise that you're going to smoke it and not save it. I don't give people cigars so they can put it on the mantelpiece and say, 'Bill Cosby gave me this.'"

**Johnny Carson,** rounding out 25 years as host of television's "Tonight Show," says he usually keeps the people involved in celebrity divorce scandals off his program because of the high potential for sleaziness: "We do have some standards. They may be low — but we have them."

**Elizabeth** Taylor says the most beautiful younger actresses are Sissy Spacek, Meryl Streep, Kathleen Turner and Debra Winger. "All have a special radiance," the actresss said. "And thank God, the big studios aren't around to tell them to become a blonde or to fix their noses the way the studios used to." Miss Taylor also listed two of her elders as beautiful women: Bette Davis and Katharine Hepburn.

—ARTHUR HIGBEE

# Reagan Bars Invoking War Powers Act in Gulf, Calls It Unconstitutional

By David Hoffman
*Washington Post Service*

WASHINGTON — President Ronald Reagan has declared that the 1973 War Powers Act is "illegal" and "unconstitutional" and that he does not intend to invoke its notification procedures despite military conflicts with Iran in the Gulf.

In some of his strongest remarks yet rejecting a voice for Congress in the U.S. tanker escort operation, Mr. Reagan said in an interview Saturday with the Cable News Network: "There are some things that have to be vested in the commander in chief. One example, and I think we did it right, was Grenada.

"The idea of a legislative body having to get together and fight over and vote on something at the same time that our national security is endangered, I just don't think it could be done."

The War Powers Act requires the president to report to Congress when U.S. forces are introduced "into hostilities or into situations where imminent involvement in hostilities is clearly indicated."

Once the report is made, the president has 60 days to withdraw the troops unless Congress authorizes them to stay.

Congress has been divided all year over applying the law to the Gulf situation, and Senate leaders last week proposed a sharply scaled-back compromise version.

The proposed compromise would require the president to report to Congress on the Gulf operation within 60 days from enactment and spells out procedures under which Congress could vote 30 days later on continuation, termination or modification of the operation.

Mr. Reagan stopped short Saturday of the formal war powers notification procedure that many on Capitol Hill have demanded when he sent letters to congressional leaders saying that the United States took "limited defensive action" in last week's attack on three Iranian boats and that "we regard this incident as closed."

A White House spokesman, Marlin Fitzwater, said Friday that the administration was not invoking the notification procedure in the current act because recent confrontations in the Gulf had been "isolated" incidents that did not portend imminent hostilities.

Mr. Reagan took a much broader view in the interview, suggesting that there were no circumstances in which he would invoke the current law.

"We think that what the War Powers Act — first of all, we think it's illegal," he said. "We think that one part of it is unconstitutional," referring to the clause giving Congress a vote over the deployment of U.S. forces.

On the subject of arms control, Mr. Reagan said he believed that the Soviet Union had relaxed its earlier demands that any agreement on limiting strategic nuclear weapons be linked to restrictions on his Strategic Defense Initiative, known popularly as "star wars."

Despite criticism from some allies and others who believe that some nuclear weapons should be retained, Mr. Reagan said it was still his view that if strategic weapons could be cut in half, "I would like to think that we would be on our way to the total elimination of nuclear weapons."

# GULF: *Amid Fleet, Arabs Fear Iran*

(Continued from Page 1)

keeping the Gulf an open waterway by adding a promise to defend Arab states against Iranian aggression.

One official described as a "vicious circle" the constant U.S. pressure for Arab states to provide more facilities in the region to support the U.S. military, against an equally constant Arab pressure for a greater U.S. commitment to Arab security.

Without a more explicit U.S. policy, some leaders of Arab states along the Gulf will remain reluctant to openly assist the U.S. and Western military presence or to endorse U.S. actions, such as the attack on the Iran Ajr and last week's helicopter assault on four Iranian gunboats, these officials said.

Arab officials still are deeply suspicious that the Iran-contra affair in the United States exposed Washington's obsession with Iran and an Israeli-inspired disregard for Arab security. They have found fresh reasons for skepticism about the West, including the following:

- U.S. energy firms have continued to purchase large quantities of Iranian oil, thus indirectly sustaining Iran's war effort. Congress has passed a ban on Iranian imports, but the administration position is unclear. The Reagan administration's commitment to pushing an arms sale package for Saudi Arabia through Congress has yet to clear the Senate, although the president's recent decision to scale back the sale has gained initial favorable comments in Congress.
- Britain, until last month, was allowing Iran to operate a commercial arms purchasing office in London. West Germany has permitted a similar facility to operate in Frankfurt.
- British officials also belatedly acknowledged that Iran procured British-made industrial technology that has helped Iran become self-sufficient in the production of ammunition and artillery shells, which rain daily on Iraqi border cities.

The continuing reluctance of Arab leaders to openly embrace the U.S. presence in the Gulf is posing logistical problems for the U.S. military, which has only a limited number of onshore facilities to support more than 24,000 sailors, marines and aviators aboard U.S. warships in the region.

This has hampered the United States, especially in providing air cover for U.S. ships patrolling the northern part of the waterway near Kuwait, according to Western officials in the region.

U.S. commanders recently have resorted to such innovations as leasing offshore barges to store supplies and to base small anti-mine and anti-guerrilla speedboats north of Qatar in the central Gulf.

Arab reaction to the Western naval deployments is significant because it may be helping to focus U.S. officials on the contradictions of a U.S. policy that was hastily drawn last spring in response to Kuwait's request to U.S. and Soviet officials for protection for its oil tankers.

These contradictions were illustrated in remarks last week by Rear Admiral Harold J. Bernsen, commander of the 11-ship Middle East Force, which is responsible for U.S. escort convoys and mine-hunting in the Gulf.

Speaking to reporters, Admiral Bernsen said, "Our presence in the Gulf is designed to do a number of things. One of those things is to encourage the containment of the war."

This statement and similar ones have been widely noted by Arab leaders looking for some assurance that the United States will define containment as preventing an Iranian victory or subversion of its Arab neighbors.

According to a senior adviser to one of the rulers in the region, U.S. officials have stated in private that "the Iranians should not be allowed to win the war."

These officials acknowledge that the dilemma for the Reagan administration in making such a commitment is that it must commit itself to preventing the fall of Iraq.

The likelihood that Congress and the American public will go along with the massive financial and military backing required to rescue Iraq in the event of a major Iranian breakthrough in the land war appears extremely remote. Yet, this is the commitment that Arab leaders are beginning to regard as essential to their long-term security, according to one senior Arab adviser.

## *Unity Is Priority In U.S. AIDS Fight*

*Washington Post Service*

HOT SPRINGS, Virginia — The new chairman of the presidential commission on AIDS says he hopes to move quickly to end dissension among commission members, fill vacancies on the panel and prepare a preliminary report by a Dec. 7 deadline.

James D. Watkins, a retired admiral and member of the commission, was named chairman Wednesday by President Ronald Reagan after the previous chairman, Dr. W. Eugene Mayberry, chief executive of the Mayo Clinic, and the vice chairman, Woodrow A. Myers Jr., resigned.

They said they resigned because of frustration with infighting and ideological differences on the 13-member panel.



The Associated Press

A flotilla of motor boats, using sonar technology, failed to find the Loch Ness monster.

# *Nessie Again Eludes Monster Sleuths*

*Reuters*

DRUMNADROCHIT, Scotland — The Loch Ness monster could be alive and well in Scotland's deepest lake, but a million-dollar expedition has failed to prove it.

Using sonar technology, a fleet of 20 vessels detected something bigger than a fish Friday in the murky waters.

But "Nessie," as the elusive monster is known, did not rear its head for the expedition.

"We have done the last of the major sweeps of Loch Ness," the leader of the expedition, Adrian Shine, said Sunday after two days of scanning the lake. "That does not mean we have made any significant contact in water."

Describing the most thorough hunt ever for Nessie, Mr. Shine recalled the strong sonar contact made Friday. Although it could not be identified, the researchers said it seemed far too large for a fish.

"We did not recontact that strong signal," Mr. Shine said Saturday night. "This should be an encouragement." He implied that whatever it was had moved from the spot where it was detected.

"We still think there are some strong sonar contacts in Loch Ness, but I don't think it amounts to your monster," he said.

Loch Ness and Drumnadrochit, a small town on the loch, have been invaded by journalists, including 21 foreign television crews, who came to watch the scanning of the 23-mile-long (37-kilometer-long) lake in northern Scotland. It is up to 750 feet (230 meters) deep.

The legend dates to the sixth century, when a Christian missionary, Saint Columba, reported seeing "a certain water monster," but the hunt started in 1933.

After an estimated 4,000 sightings, the Loch Ness Monster Exhibition Center has pieced together an image of Nessie resembling a large, prehistoric reptile with a long serpent-like neck, flippers, bumps and a tail.

Although the monster has escaped numerous expeditions to find her, she is protected by law in case one succeeds.

"There is a local law to protect Nessie," said Ronnie Bremner, founder of the exhibition center. "Nobody will harm, interfere or remove her from the loch."

# STINGER: *Iranian Says U.S. Forces May Be Targets*

(Continued from Page 1)

in Afghanistan went astray during shipment through Pakistan.

The Iranian press agency, monitored in Nicosia, Cyprus, reported that Prime Minister Mir Hussein Moussavi said Tehran had begun "serious studies" aimed at manufacturing copies of the Stingers.

The press agency quoted Mr. Moussavi as saying, "Serious studies are under way to manufacture Stinger missiles thanks to the creativity of our combatants."

**■ 11th Escort for U.S. Navy**

*The Washington Post reported from Dubai:*

After a night of violence in which Iran fired its third missile into Baghdad in a week and Iraqi warplanes blew apart an Iranian oil shuttle tanker killing at least two crewmen, the U.S. Navy escorted its 11th and largest tanker convoy into the Gulf on Sunday.

The reflagged Kuwaiti tankers Ocean City, Sea Isle City Gas King and Gas Princess were sighted off Dubai in the lower Gulf after passing through the Strait of Hormuz during the night.

They were accompanied by the missile frigates Klakring, Hawes and Ford as well as the amphibious dock landing ship Mount Vernon, which is believed to be carrying supplies for two offshore bases that U.S. naval forces are setting up on large oceangoing barges in the upper Gulf.

Also on Sunday, the U.S. energy secretary, John S. Herrington, said at a news conference in Abu Dhabi that the United States "is very satisfied with the support we are getting from the Gulf countries."

"We are getting ship repairs done," he said. "We are getting refueled and resupplied. We are getting what we need."

Iran's missile attack on Baghdad shook the Iraqi capital shortly after midnight. The Iranian press agency said the missile hit Baghdad's major military camp, Al Rashid, on the southern edge of the city.

Iraq said the missile struck residential areas, killing and wounding many civilians.

Iran said the missile attack was in retaliation for Iraq's use of chemical weapons last week against Iranian troops in the Sumar basin, an area that comprises the central Iran-Iraq front about 80 miles (130 kilometers) northeast of Baghdad. Iran said the gas attack killed 100 soldiers and poisoned dozens of others.

Overnight Saturday, Iraqi warplanes fired two Exocet missiles into the 239,435-ton Liberian-registered supertanker Rova as it steamed empty on a return shuttle run near Iran's Kharg Island terminal in the northern Gulf.

# ATOM: *Japanese Physicists Gain*

(Continued from Page 1)

themselves in the forefront of physics.

Although they have received only limited recognition in the West, Japanese physicists were once among the most prominent in the world.

Japanese scientists note that in 1902 Hantaro Nagaoka proposed that the atom consists of a heavy nucleus surrounded by orbiting electrons.

This was a decade before Ernest Rutherford and Niels Bohr made a similar proposal and were able to explain, in terms of quantum mechanics, why the electrons did not fall into the nucleus.

Hideki Yukawa won a Nobel Prize for his work in the 1930s predicting a new class of subatomic particles, the mesons. Shin-ichiro Tomonago was similarly honored for his role during the 1940s in devising the theory of quantum electrodynamics.

But after World War II the Allies dumped Japan's atom-smashing accelerators into Tokyo and Osaka bays lest they be used for nuclear weapons research.

Mr. Ozaki, formerly a group leader at Brookhaven National Laboratory on Long Island, New York, said in an interview that there were "naive reasons" to suspect that the top quark might have a mass about three times that of the bottom quark, whose mass — expressed in terms of its energy equivalent — is nine Gev.

"With the Tristan," he said, "we are looking at the mass range of 25 to 33 Gev."

About 400 collisions have been analyzed, and none so far have shown clear evidence of the top quark.

Tests with the proton-antiproton machine at CERN, the European research center near Geneva, have also failed to find it in that mass range, he added.

Some theorists believe it may have a mass of more than 100 Gev, which could be produced only when a larger collider at CERN reaches full power.

# SOVIET: *Travel as Ordeal*

(Continued from Page 1)

aid of Intourist, which books hotel space for foreigners, Russians are confronted with problems that would seem surreal to a Western traveler.

In the absence of phone directories, it can be difficult just getting the number of an out-of-town hotel. There has long been a nationwide shortage of the directories, partly to prevent foreigners from gaining easy access to numbers.

Even with the correct number, dealing by phone with hotel clerks is often an exercise in frustration, with rude employees either refusing to book a room or simply hanging up because they do not want to be bothered.

Faced with these inconveniences, it is little wonder that Russians are less than enthusiastic about travel, and most prefer to stay home unless they can go somewhere on business, in which case return tickets and hotel reservations are easier to obtain.



# Le Pen's National Front Stirs Chaos In Late-Night French Assembly Vote

*Agence France-Presse*

PARIS — The extreme-right National Front caused chaos during a late-night session of the French National Assembly by flipping voting switches for members of other parties who were absent.

The Front, which was widely condemned last month over remarks in which its leader described Nazi gas chambers as a "detail of history," said it had staged the voting incident Friday night and early Saturday to protest mass absenteeism during a debate on a drug law. The law, which was not the subject of controversy, was approved.

Members of other parties who were present said National Front deputies ran along the empty benches, flipping the switches with which deputies vote.

In most late-night debates, members of each parliamentary group vote for their absent colleagues by flipping the switches. This is the first time deputies have cast votes for members of rival groups.

Amid widespread protests from other parties, the National Front said its leader, Jean-Marie Le Pen, would explain the incident Monday. The party said the incident was aimed at "returning free expression to the people."

Mr. Le Pen, who is running for president next year, was widely branded as an anti-Semite and a Nazi sympathizer because of his remarks last month.

Two National Front deputies who took part in the voting said in a statement that absenteeism during the vote was an "outrage against the French people."

Patrick Devedjian, a deputy from the Rally for the Republic party of Prime Minister Jacques Chirac, said the National Front was "in the process of committing suicide, knowing that it has no hope whatsoever of having any members in the next parliament."

The Front won parliamentary seats because the previous Socialist government introduced a system of proportional representation in legislative elections last year.

# KOREA: *Opposition Split*

(Continued from Page 1)

speak for an hour. Many of them chanted his name over and over, and shouted, "Run! run! run!"

And that is what Mr. Kim essentially said he would do, despite the absence of a formal statement.

"I think I'm the strongest candidate to solve the problems that our nation faces," he said.

He was even more unequivocal in a written statement that was distributed earlier to reporters and translated by his aides into English. In it, Mr. Kim bitterly denounced the contention, raised by Kim Young Sam and others, that he should not run because strong opposition to him within the South Korean Army created a risk of military intervention.

If Koreans accepted the idea of a military "veto group," he said, "it only means that we have given up democratization." He added, "I am convinced that we absolutely cannot change our position because of a certain attitude taken by a small number of politically minded soldiers."

In the written statement, Mr. Kim also touched on a point that he does not often tackle head-on — the sense among some South Koreans that for all his talk about democracy he is really, in his own words, "seized with the desire for power."

# BARSCHEL: *Politician Dead*

(Continued from Page 1)

said an autopsy would be performed.

Though Chancellor Helmut Kohl and his government were not touched, the scandal broke when his center-right coalition was embroiled in a divisive internal struggle, and it followed a series of regional election setbacks for his conservative Christian Democratic Union.

At immediate stake for the party was its 37-year monopoly on the politics of the agricultural province of Schleswig-Holstein. In elections on Sept. 13 — the same day the newsmagazine Der Spiegel first splashed the first charges against Mr. Barschel across its cover — the party lost 12 seats in the state parliament. It ended up with 33, three fewer than the Social Democratic Party's 36.

But the liberal Free Democratic party, one of the Christian Democratic Union's national coalition partners, threw its four seats behind the union, leaving the tying vote in the hands of a small Danish minority party.

Now, with Mr. Barschel dead, the prospects were strong that the Socialists would either win a race for the state leadership outright or at least force an election, which they would be likely to win.

Mr. Barschel was survived by a wife and four children.

International Herald Tribune
Published With The New York Times and The Washington Post

## Gorbachev's Quagmire

Mikhail Gorbachev continues looking for a relatively painless way out of Afghanistan, just as Lyndon Johnson and Richard Nixon looked for a way to escape Vietnam. He wants to leave without seeming to abandon a vulnerable client regime. Thus Soviet diplomats talk about forming an interim regime including Afghanistan's former king, and with non-Communists holding half the cabinet posts. They also talk about United Nations peacekeepers to monitor compliance with a UN-brokered peace as 120,000 Soviet troops return home.

These are negotiable propositions. They deserve sympathetic consideration. But as past American presidents will attest, getting out of quagmires has to be painful — and probably cannot be accomplished without running the risk of losing.

That Mr. Gorbachev wants out and is willing to pay a price is evident from telltale shifts. First, Soviet theologians determined that the Communist regime in Kabul was not really Communist. It was then hinted that the former king, Mohammed Zahir Shah, might return in an unspecified role — but with Afghan Communists being in the dominating "vanguard." Now it is said the regime could be split evenly with Communists.

The United States, the United Nations and others would be well advised to help Mr. Gorbachev establish a decent interval between Soviet withdrawal and whatever follows. But difficulties loom large. Insurgent groups themselves are deeply split, and some hate one another almost as much as they hate the Communists. How are they to be unified? How can many of them be persuaded to share power with Communists? This savage war has claimed a million lives and driven five million Afghans, one in three, into refugee camps in Pakistan and Iran.

It might be possible to seek out former ministers in earlier Afghan regimes, thereby avoiding the need of choosing between the Iranian-style fundamentalists and secular nationalists in a fragmented resistance. UN mediators who have helped shape the withdrawal agreement might be go-betweens in shaping an interim coalition.

This assumes the Soviet Union is willing to chop its timetable for withdrawal from 16 months to less than a year. If that happens, Pakistan already has signaled its willingness to let UN peacekeepers monitor the cease-fire and seal off its borders to foreign help for insurgents. The foundation might then be laid for a settlement providing autonomy for Afghans and guaranteeing nonalignment to satisfy Moscow.

Even then, Mr. Gorbachev would have to accept the probability that the Afghan Communists would lose power as soon as their Soviet protectors had withdrawn. In Vietnam, the United States had to face the prospect that its unpopular, ineffective allies could not survive American departure. If America's painful parting from Vietnam can teach Moscow anything, it is this: Once the likelihood of losing is accepted, it is wise to seek settlements sooner rather than later, and then remove truly endangered allies quickly from harm's way.

*— THE NEW YORK TIMES.*

## Traps on Chemical Arms

Soviet and American officials boast that they are near agreement on banning chemical weapons. Ridding the world of these repulsive weapons truly would represent progress for humankind. It is far from clear, however, that the ban can be effective and verifiable — even though the two sides now accept provisions for on-site inspections.

Direct inspections mark a real advance in monitoring arms treaties. But they do not in themselves provide the necessary guarantees on chemical weapons, which can be readily secreted and made in many factories where chemicals are used.

If the experts have figured out answers to such thorny verification problems, these should be shared with Congress and the public. If they do not have the answers, they had better get to work finding them.

But if remaining worries loom large, so does recent progress. Six months ago, the Russians did not even admit to having chemical weapons. Early this month, they let visitors from 45 nations tour their largest chemical weapons production facility.

Negotiators in Geneva say they have agreed on a halt to production, a system for locating and destroying existing chemical weapons and facilities, and a system for overseeing the chemical industry to preclude covert production. They are working on details for an international agency that would verify the ban and supervise destruction of weapons and facilities over 10 years.

The current surge of optimism comes from the Russians' sudden accession to Washington's demand for the right to on-site inspection on 48 hours' notice with no right of refusal. As with Moscow's agreement to on-site inspections in the medium-range missile talks, this is a surprising and welcome turnaround. Yet far from enabling all else to fall into place, this surprise dislodged a mountain of new questions about cheating.

The problem of verification makes nuclear weapons verification look easy. Chemical weapons can be produced more readily, and secreted more easily. Facilities can be turned overnight from commercial production to weapons manufacture. Stringent challenge inspections can allay but not eliminate these concerns. Nor does the proposed treaty thus far adequately address the fact that chemical weapons are produced in many countries. What is to be done about those that do not sign on?

Perhaps negotiators have good answers. Or perhaps they will maintain that an imperfectly enforceable ban is better than none. Or perhaps they believe that something less ambitious — a nonproliferation effort, chemical weapons-free zones or staged reduction of stockpiles — could do more to reduce the danger of chemical warfare.

As it is, news of progress toward a treaty comes just as the United States prepares to produce new chemical weapons. France also plans new production. And charges of chemical weapons use have increased in recent years, particularly in the Gulf war.

It is clear that nations must go beyond the 1925 convention forbidding the use of these weapons. If the plans to produce new weapons and the erosion of taboos are not to herald a new era of use and proliferation, effective controls are needed soon. But what has to come before further talk of treaty signing is the evidence that negotiators have good answers to the hard questions.

*— THE NEW YORK TIMES.*

## The Amazing Mrs. Luce

The first thing to be said about Clare Boothe Luce, who died Friday, is that you would not have dreamed of saying of her that she was "84 years young" or indulging in any of those other affectionate little condescensions people reserve for the old. Until illness finally got her, Clare Luce remained a woman of unconditional elegance and interest. At 84 she still tended to be, as she must have been half a century before, the most attractive person in the room.

Much has been written and more will be about her amazing life. She hardly left a single precedent or taboo or barrier standing that got in her way as an ambitious, insatiably curious woman. In an age in which credentials sometimes seem to be the kind of thing that is dispensed as a diploma, license or badge from some boring bureaucracy, Mrs. Luce manufactured, by her very style of living and her drive, her own credentials. A bona fide intellectual, she gave herself a lifelong college education, not having had the real four-year kind as a young woman. She raised early feminist hell. To the end she said things others would not dare to — cleverly, wickedly — and seemed only to enjoy the resulting fracas. She had good fortune, but also much sorrow; yet you never got the idea that either had cowed the woman or made her self-protecting. Clare Luce, to put it mildly, was not an "off the record" type of person; unlike so many of her fellow Washingtonians she was neither fearful nor ashamed of what she meant to say.

She was also distinctive in the way she combined her profound conservatism with absolute joy in the exploration of everything new and daft and different on the American scene. She was a connoisseur of all the latest twists and turns in the popular culture. She had an affinity for younger friends, who never thought of her as older. Her compendious reading never stopped. Let us not pretend that Mrs. Luce's politics were ours or that we think her record is perfect or that she was some kind of angel. We had some Class A differences and battles with her in our time. They were as highly charged, engrossing and memorable as everything else about her.

*— THE WASHINGTON POST.*

## Other Comment

### Underlying the Bork Debate

Far from being irrational, the forces producing Judge Robert Bork's defeat were both logical and inevitable. Americans don't want preachers in politics, school prayer in public classrooms, perceived extremists on the Supreme Court. They are neither liberal nor conservative; they are practical — yes, "pragmatic." If anything defines Americans philosophically today, it is their belief in moderation and fairness.

*— Haynes Johnson, The Washington Post.*

Judges [in the United States] become mired in the routine buffooneries of politics — where conservatives are depicted as reactionaries and, when circumstances change, liberals are depicted as subversives. Yet there are those who would introduce bits of this system to Britain. America's written constitution has enough other merits to outweigh the defect of politicized judges. That is unlikely to be the case here. As well as being a great blow to Mr. Reagan, Judge Bork's fate is a warning to Britain.

*— The Times (London).*

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# OPINION

## Next, Swap Nuclear Artillery for Soviet Tanks

**By Joseph S. Nye Jr.**

CAMBRIDGE, Massachusetts — Too little attention is being paid to the likely aftershocks of the emerging "double zero" agreement to remove intermediate- and shorter-range nuclear missiles from Europe. In NATO, the pact will create a new set of problems and tensions centering on conventional Soviet military strength, particularly tanks. These fears could be alleviated by a different arms control proposal that mixed reductions in nuclear and conventional force.

Criticism of America is growing in West Germany, primarily among conservative supporters of the Kohl government. They argue that Pershing-2 and cruise missiles were not placed in Europe solely to counter Soviet SS-20 missiles. The capacity of those missiles to strike Soviet targets provides a reassurance that the nuclear threat is not borne by West Germany alone.

Germans fear that after the removal of intermediate- and short-range missiles, their country will be transformed into a zone for limited nuclear war. They argue that this unfair sharing of the risk in the North Atlantic Treaty Organization will drive West Germans of all stripes toward neutralism.

Certainly a double-zero agreement would place increased emphasis on the deterrent role of the nuclear artillery and short-range Lance missiles on West German soil. One solution to this dilemma would be a "triple zero" agreement, in which battlefield nuclear weapons would be removed as well. Indeed, some Germans fear that the Soviet Union will press such an offer, which could create havoc in West German domestic politics.

West Germans properly fear the Soviet armored divisions on their border. Under desperate circumstances, Soviet leaders might be tempted to use their 3-to-1 advantage in forward-deployed tanks to try a surprise attack that could present NATO with a fait accompli. Short-range nuclear weapons serve to remind Moscow of the risk of nuclear escalation. Thus, the West Germans' dilemma: They do not wish to be without nuclear weapons but neither do they want to risk becoming a nuclear free-fire zone.

One solution would be to increase NATO and West German conventional forces. But West Germany already has a draft, and the number of young men eligible for it is beginning to decline. New antitank weapons offer hope, but all NATO governments face budgetary stringency. Even if these obstacles did not exist, many Europeans are reluctant to rely too heavily on conventional deterrence. They want to deter all war, including a conventional World War III on their soil.

Another solution would be conventional-arms control. As nuclear weapons are reduced, the balance of conventional forces becomes more important. NATO and the Warsaw Pact have made little progress in 14 years of negotiations on the reduction of conventional forces in Europe, and the Mutual and Balanced Force Reduction talks in Vienna have attracted a degree of diplomatic cynicism. Moreover, the talks have focused on reductions in military manpower that would do little to remove the threat posed by forward-deployed Soviet armor.

If Soviet tanks provide a major reason for having nuclear artillery, then why not pursue mutual reductions in nuclear weapons and armor? Such an arms control agreement would reduce the real military threat in a way that symmetrical reductions in manpower or tanks would not.

Moreover, since arms control has become a central way of thinking about security problems, leaders of democratic countries must pay more attention to educating the public. Even if Moscow was slow to accept a "nuclear artillery for tanks" proposal, the public would be led to focus on the relevant security issue and would be less divided by a Soviet "triple-zero" nuclear proposal.

The terms of the trade should not allow total denuclearization, especially since democratic politics may make it more difficult for NATO to reintroduce nuclear weapons than for the Soviet Union to reintroduce tanks. If we are to make useful progress in arms control after the double-zero pact, we must avoid thinking in separate nuclear and conventional compartments. A nuclear artillery-for-tanks proposal would be an important step in that direction.

*The writer is director of the Center for Science and International Affairs at Harvard University. He contributed this view to The New York Times.*

## Bork Stands Up His Lynch Mob

**By William Safire**

*'Tell you what, Cap'n — I'll put a little slipknot in here.'*

CHICAGO — What a gutsy, judicious thing to do. Every liberal pressure group in Washington was patting itself on the back. Senators Joe Biden and Ted Kennedy, champions of integrity, were congratulating each other on their triumph in turning the Bork hearings into the personal vilification and public lynching of a proponent of judicial restraint. The media gathered at the White House for the surrender and humiliation they had been predicting for weeks.

And Judge Robert Bork crossed them all up. Under no illusions about the vote count against him, he declined to go gently into that political good night. Aware of a "danger to the dignity and integrity of the law" in the way his character and record had been maligned, he called for the world's greatest deliberative body to do what a Senate is supposed to do: to take the time to debate his nomination without the hoopla and hype of the campaign against him using the forum of the Judiciary Committee.

Liberals and Southern Democrats had the tickets. The bandwagon was rolling, and senators acted as if the Senate floor had become a redundancy in the television era. Screw up the next nominee, was the frenzied mood, and if he does not protect the current ideological makeup of the court, we'll do to him what we did to Judge Bork.

The media story became "recrimination and disarray among the Reagan men"; the political story became the ability of black leaders to lean on Southern Democratic senators, using unfounded fears of racism to break votes away from the usual bipartisan conservative lineup.

The decision of Senator Howell Heflin of Alabama was supposed to be the example of the bandwagon's unstoppability. But you had to listen closely to catch the Southerner's caveat — that his decision was not final.

A word began to surface that was at first ignored. The word was "lynch," and it was not being used just by stunned conservatives complaining about mob psychology and character assassination. The evenhanded columnist David Broder deplored a moment "when judges are lynched to appease the public." Senator Mark Hatfield of Oregon, a liberal, pacifistic Republican, said he would vote to support the Bork nomination if it ever came to the floor because he did not like the atmosphere of a lynch mob.

The charge was true: Judge Bork had been strung up without fair process, savaged by the liberal, special interest powerhouse. Campaign strategy was set, mailings were made, opinion polls publicized, senators lobbied, the media manipulated to feed the bandwagon psychology.

A still, small voice in many undecided minds asked: "Is this the way to judge a justice? Are we setting a precedent we will regret?" That is why, when Judge Bork crossed up his tormentors with a slightly controlled statement that he looked to the full Senate for intelligent consideration, the response was not a derisive "Don't you know when you're licked?" Instead, it was to say: Let the Senate be the Senate. Deliberate; debate; vote.

Let senators ask each other: Should the criteria for judges continue to be individual merit and personal qualification, or a new standard of "ideological balance" on the courts to which they are appointed? Are the people better able to affect the court through the election of a nominating president, or by the election of confirming senators?

Let the upper house, given the "advise and consent" function by the Framers because its members are supposed to be less swayed by passions of the moment, debate this question: Is the independence of the judiciary undermined when judges are required publicly to hint at future decisions in order to be confirmed?

Then let the Senate ponder these questions: Should judges discover new law in the Constitution, or should they leave it to legislators to enact law? Is the Supreme Court's mission primarily to protect the minority, or to ensure that majority rule prevails in a democracy? Should confirmation proceedings become gut-fighting political campaigns, with men and women of the law set up for lynching if they do not pass the right litmus tests?

Stop playing to the balcony, senators, and start the debate on the floor. Influence each other, then take your stand. Judge Bork, at the brink of defeat, has already won a victory for honor, decency and respect for the law.

*The New York Times.*

## The Irony of Defending Those America Fears to Arm

**By Jim Hoagland**

PARIS — Remember the Nixon Doctrine? The promise that post-Vietnam America would provide its Third World allies with the weapons and training to fight their wars but would not fight those wars for them?

That doctrine reached its zenith when Richard Nixon promised in 1972 to sell Shah Mohammed Reza Pahlavi any conventional-weapons system the Iranian monarch wanted. But it slid into ignominy with the collapse of South Vietnam in 1975 and the fall of the shah four years later.

Now the Reagan administration has turned the Nixon Doctrine on its head, and the locale is again the Gulf. It is there that the administration is sending Americans to fight for Arab states it will not or cannot arm.

To be fair, this is not a result the White House set out to achieve. It is Congress that has religiously blocked arms sales to Saudi Arabia, Kuwait and Bahrain — the same countries the administration is deploying American ships and men to protect from Iran. As for Iraq, Iran's main enemy, Congress has hung out a sign: Do not even think about arming these guys.

The incoherence of the administration's response to this dilemma was on display Thursday. As the White House was backing away from its proposal to sell Maverick missiles to Saudi Arabia and Stinger missiles to Bahrain, U.S. helicopters were busily attacking four Iranian patrol boats in the Gulf after the Iranians were foolhardy enough to fire on a U.S. observation helicopter.

Can the United States really be willing to ask its sailors and airmen to be ready to die for Kuwaiti tankers and thus "reassure" America's Arab allies of its reliability, but not be willing to provide those allies with modern weapons to protect the tankers themselves? Taken together, the policies of Congress and the White House have created an absurdity that not even the combined brilliance of Caspar Weinberger and George Shultz, those veterans of forceful U.S. policy days in Beirut, may be able to resolve.

The fear that the U.S. weapons would one day be turned against Israel helps explain Congress's share of the American dilemma in the Gulf. That is a problem to be explored another day. What is important at this point is not to lose sight of the accidental nature of the growing U.S. involvement in the Gulf and the vulnerability of U.S. designs to forces that have no particular reason to wish America well — not only Iran, but also Iraq and the Soviet Union.

It is, in brief, the kind of situation that gave rise to the Nixon Doctrine in the first place.

In the understandable pleasure Washington takes in the Iranian-bashing opportunities of the moment, it is too easy to forget that 37 American sailors have already died in this conflict, and not at Iranian hands. The mistaken Iraqi attack on the frigate Stark in May forced the administration to explain why those men had been put in harm's way, and then to design a policy to fit that explanation.

Originally it was said that the Stark got shot while pre-empting Soviet moves in the Gulf and guaranteeing freedom of navigation. As circumstances have changed, and particularly as Mr. Shultz prepares to go to Moscow to seek Soviet cooperation on the Gulf, the rationale has been reshaped. It boils down now to a desire to develop a long-term, un-Nixonian military presence in the Gulf (which the Arabs America is protecting show no signs of wanting).

The sizable U.S. force that has been assembled since the attack on the Stark could change the Iran-Iraq war in ways other than those that Washington hopes and predicts. It could help undermine a tacit but clear system of constraints that has held damage in the war to acceptable levels in recent years.

Last winter, when Iraqi air attacks were devastating Iranian refineries and cities, Kuwait and Saudi Arabia understood that they would feel the sting of Iranian retaliation if the attacks continued. The deep air raids soon stopped and are only being resumed now that the Weinberger Shield surrounds Iraq's two allies. The thresholds of acceptable violence appear to be on an escalator that Iraq controls better than does America.

Washington has succeeded in reducing the worries of Kuwait, Saudi Arabia and Iraq, as the State Department's Arabists promised. After all, Iranian retaliation would now hit American sailors and soldiers, and not something that Congress and the Arabs seem to think worth hoarding far more: sophisticated weapons.

*The Washington Post.*

## Open the UN Archives on Nazi Crimes

**By Benjamin Netanyahu**

NEW YORK — In Paris, a candidate for the French presidency asserts that the Nazi gas chambers were a "minor detail," a historical footnote. In London, a new play says the Holocaust was a joint conspiracy of the Zionists and Nazis. In New York, an institute for "historical review" distributes publications that "prove" that the destruction of European Jewry is a fabrication of Zionist propaganda. In universities in the West, doctoral dissertations are being written to bolster these contentions. Forty years after the Holocaust, within the lifetime of many of its victims, we are witnessing an accelerating effort to distort, deny and dismiss the greatest crime in the annals of man.

Opening up the United Nations's Nazi War Crimes Archives, closed to researchers for nearly 40 years, can help change that. A mere handful of its files examined by Israel establish beyond doubt that it is the single greatest source of information about the Holocaust yet to be studied. In these files, we found new details about the death camps, staff lists of Gestapo personnel, the numbers of Jews exterminated, the extent of property confiscated, even records of entire Jewish communities that disappeared without a trace.

Worse, we found that this information was meticulously documented by the Allies during World War II, when it was still possible to save millions. The historian David Wyman, author of "The Abandonment of the Jews," said that opening the archives is indispensable for a full understanding of the Holocaust.

It is indispensable not only to history but to justice. Of the tens of thousands of accused Nazi war criminals documented in the archives, many are no longer alive; some have been tried. But undoubtedly a substantial number of untried criminals are alive and free, their files securely protected in the bowels of the United Nations.

In the last 40 years only three of these files have been used for criminal investigation. Opening the archives will compel reluctant governments to act. There is no time to waste. In a few years, there will not be any more criminals to try and no witnesses to testify. We shall have neither truth nor justice.

This is why we were stunned when Israel's request to open the files was rejected in June 1986. Opening these archives, we were told, "might disclose unproved rumors against innocent people." But the commission that compiled the war crimes archives did not deal in "rumors." Its panel of eminent jurists recommended prosecution only in those 25,000 cases where solid evidence was produced.

And opening the archives will not "disclose" the identities of the accused. They are already known; a list of their names and the charges against them is publicly available in the National Archives in Maryland. It is the details, so essential to both judicial and historical investigation, that are kept hidden.

For the last year, we Israelis have been continuing our struggle to open the archives. Later this week, the UN secretary-general will convene a meeting to decide the matter. Some have suggested that he adopt half-hearted measures. Under one such suggestion, researchers would be allowed to examine the archives but would be prevented from freely publishing their findings.

This will not do. Access without publication is absurd. If a researcher were to come across, say, another Kurt Waldheim file, would we seriously expect him to suppress it? Scholars may have no power to prosecute, but it is up to them to bring the truth to light, and they can only do so by publishing it.

Continued secrecy does not protect the innocent but the guilty. It assists those who would deny history. It tells us that we have learned nothing. For if the archives reveal a shocking indifference to genocide by the community of nations 40 years ago, the efforts to prevent its opening now are no less disturbing. Failure to open the files continues the complicity in that same silence.

*The writer is the permanent Israeli representative to the United Nations. He contributed this comment to The New York Times.*

## As the Clock Ticks On, Nations Play

**By Flora Lewis**

PARIS — The spread of nuclear weapons capacity has been slower than most experts thought likely when the nuclear nonproliferation treaty was signed in 1968. But it has spread, largely under a veil of secrecy because the treaty created a climate of international disapproval that states prefer not to flout openly.

Israel doubtless has a stock of weapons, South Africa either has some or could make them quickly, India has conducted a test and Pakistan is on the verge of acquiring the ability to produce weapons. Various pressures have prevented Iraq, South Korea, Libya, Brazil and Argentina from going ahead with their plans.

But the world is no more peaceable and stable, and the issue remains critical. Now the U.S. Congress is struggling over what to do about Pakistan. U.S. law cuts off aid unless there is a renewal of the waiver passed after the Soviet invasion of Afghanistan, or unless Pakistan can show that it has stopped working on the bomb.

Despite Islamabad's denials, evidence has piled up that it has been pushing ahead all through the six-year waiver period. Arshad Pervez, a Canadian citizen of Pakistani origin, will be tried in Philadelphia next month for attempting to export illegally a special steel needed to enrich uranium to weapons grade.

The waiver, which expired Sept. 30, was accepted in 1981 on the argument that Pakistan was still far from getting the bomb and could be induced to forgo the effort with more conventional military aid. Representative Stephen Solarz of New York says that it is "now clear the policy has been a failure" and that Pakistan has shown "unbelievable arrogance."

The United States is embarrassed, because support for the Afghan rebels requires Pakistan's cooperation. It does not want to endanger that while the Russians are in Afghanistan. Neither does Mr. Solarz, but he thinks Pakistan will allow arms for the rebels to keep flowing for its own reasons, and might just comply with his new proposal not to enrich nuclear fuel to weapons grade.

A head-on conflict exists here between two widely backed U.S. policies: a commitment to nonproliferation and a pledge to sustain the Afghan resistance. It is another example of cross-purposes.

Prime Minister Mohammed Khan Junejo says that Pakistan does not seek a bomb, and "if we wanted one, we would not keep it secret." U.S. intelligence says otherwise.

Islamabad will not sign the nonproliferation treaty nor allow outside inspections unless India also does. It has suggested mutual inspections with India, as Brazil and Argentina agreed when both ousted military dictatorships at about the same time.

India flatly refuses, and will make no effort to test whether Pakistan is bluffing. It argues that as a sovereign nation it will not do what the five known *nuclear* powers will not do. Less formally, India points out that it has been at war four times with Pakistan and once with China, a nuclear power, and needs a nuclear option.

But India is confident of its military superiority. It wants to be recognized as the regional superpower, which means it will not accept equal status with Pakistan on the nuclear issue.

The Afghan problem makes the circle more vicious. The Russians evidently do want to leave, but they want to leave a compliant regime behind so as not to admit failure. Pakistan is confident U.S. aid will continue until Moscow gives up.

Indian and Pakistani intransigence is more a matter of pride than security. The two have a point that the superpowers have yet to reduce their arsenals significantly, as promised almost two decades ago in the nonproliferation treaty. The impending U.S.-Soviet missile pact is too limited to make a difference to them, and nothing has been done to limit tests for design of new weapons.

A new Moscow offer to allow only four nuclear tests of one kiloton each in a year could lead to an important change. By itself, it would not cut arsenals but it would stop new types of weapons and it could be verified. But America wants to keep its design teams working. That spurs others.

Everybody has a stake in preventing Pakistan, and others, from adding to the list of nuclear states. Everybody has reasons *not* to take steps to assure nonproliferation. Everybody has reasons that others should break the gridlock. The nuclear clock ticks on while nations play Alphonse and Gaston — "Please, you go first."

*The New York Times.*

## 100, 75 AND 50 YEARS AGO

### 1887: Wilde's 'World'

LONDON — Oscar Wilde today [Oct. 11] issued his programme on assuming the editorship, beginning Nov. 1, of the magazine "The Lady's World." This name he changes to "Woman's World." His list of contributors is mainly composed of ladies allied to the Peerage, many of whom have not been hitherto suspected of literary ability.
NEW YORK — An amusing feature of the registration preliminary to the election going on here today is the fact that a number of strong-minded ladies are trying to push their claims to becoming voters, and are insisting on being registered.

### 1912: The Atlantic Fleet

NEW YORK — One hundred and twenty-three vessels, comprising the Atlantic fleet of the United States, completed their mobilization in the Hudson River this afternoon in preparation for the grand naval review which is to occupy three days beginning tomorrow. It is the largest assemblage of naval vessels in the history of the United States. The total tonnage represented here is three-quarters of a million.

### 1937: Visits of Note

BERLIN — The Duke and Duchess of Windsor arrived in Berlin today for a 12-day visit in Germany as guests of Reichschancellor Adolf Hitler. The former King of England and his American-born wife received in the German capital the warmest welcome they have yet had since they were married last June in the Château de Candé in Touraine. Big crowds of Germans gathered at the station for their arrival and in front of their hotel, shouting "Heil."
WASHINGTON — Vittorio Mussolini, 21-year-old son of the Duce, had tea with President and Mrs. Franklin D. Roosevelt this afternoon. The occasion was a social one. A heavy police guard prevented demonstrations.

*A Monthly Report for the International Investor* — International Herald Tribune — *Monday, Oct. 12, 1987*

# PERSONAL INVESTING: FUNDS

## INSIDE



## FOCUS

# Funds Debate Incentive Pay

*Tony Barnes of Korn Ferry.*

WITH THE BRITISH fund industry in a full-fledged boom, it is little wonder that top firms are bidding up the salaries of fund managers. And with the upward spiral in compensation has come the thorny issue of whether pay should be linked to fund performance.

"There's sort of a Big Bang going on in fund management" in terms of how fund managers are compensated, observed Tony James, managing director of Korn Ferry International in London, the executive search firm. "A trend toward performance-related compensation has emerged."

While performance-linked compensation is widely accepted in the United States, the idea grates on management at some British firms. "Maybe the British are a bit old-fashioned and stuffy about it," suggests Nick Train, who oversees about 10 funds for GT Unit Managers Ltd.

British compensation was bound to go up given the growth in assets under management. The amount of money in British unit trusts has grown to £47.8 billion from just under £5 billion in 1980, according to the Unit Trust Association.

These days a junior fund manager responsible for a £100 million portfolio may command an annual salary of £50,000, according to London headhunters. A seasoned veteran with a proven record would fetch considerably more, and, at some firms, be eligible for equity stakes or share options.

The competition for talent has put strains on the practices at more tradition-bound firms. Old-line investment houses have typically recruited university graduates, trained them and moved them up through the ranks. A newly trained fund manager at these firms may earn £30,000 a year.

"Home-grown talent tends not to cost as much," says an executive at a big London-based unit trust group. "The system fosters loyalty, team spirit and continuity."

He expressed disdain at cases where a firm brings in outsiders at "silly salaries" to fill specialized positions. "It's not our style to promote prima donnas," he says.

But along with higher salaries, firms increasingly are offering special rewards to managers. These incentives can be seen in two ways. First, they help firms attract and keep the best talent. Second, they encourage managers to wring more performance from their portfolios.

INCENTIVE PLANS can be a matter of applying detailed formulas or involve a less formal evaluation by management. At Allied Dunbar Unit Trusts, a plan was introduced this year under which a fund manager can qualify for a bonus of up to 30 percent of annual salary by meeting several performance criteria, says Alex Lyle, a senior investment manager at the firm. The evaluations are carried out annually.

Graham Joblin, director of Gartmore Fund Managers Ltd., says bonuses are available to managers deemed by the board to have made substantial contributions to the firm during the year.

While few industry executives dispute the merit of amply compensating talent, some are wary of closely linking bonuses to fund performance.

"People outside like to see fund managers paid by performance because they think it is a good incentive," acknowledges Douglas Hunter, investment director for Aetna Unit Trust Ltd.

"I find the bonus is a bit dangerous," he says. "It doesn't gain that much more productivity. I would rather be paid well consistently, and if I don't perform, then I'm out."

Tim Edwards, chairman of Kleinwort Barrington Ltd., says bonuses based on how well a fund performs can be unfair if they fail to allow for fluctuations in market or economic conditions. For example, a manager who guides a fund specializing in technology stocks would lose out on bonuses if economic conditions depressed that sector of the market, even though he may have been adept at limiting the damage to his portfolio.

A graver issue for investors is whether performance-linked compensation encourages their fund manager to take more risk than he would otherwise in the hope of achieving impressive gains. Mr. Train of GT Unit Managers says the debate in the industry focuses on what is the best way to compensate a fund manager without encouraging the manager to go after short-term, speculative gains.

A possible solution, says Mr. Barnes of Korn Ferry, is to design compensation packages so that extra pay for superior work is based on performance over a longer interval of time. Under a rolling compensation structure, the payout might come as often as once a year but be tied to performance over two or three years.

An arrangement of that kind would have at least two advantages: It would encourage managers to pursue longer-range strategies and it would diminish

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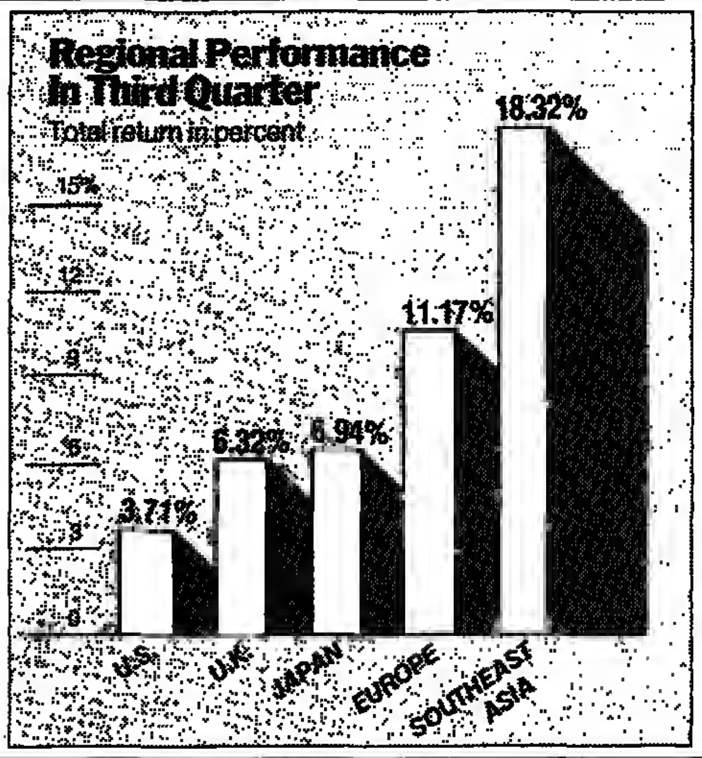
# Offshore Funds Cash In on Pacific Basin Plays

Charles Waller




**Top 10 Offshore Funds In Third Quarter**

| | |
|---|---|
| Taiwan (R.O.C.) Fund | 70.43% |
| First Securities Investment Trust | 66.14% |
| Thornton Hong Kong & China Gateway Fund | 48.74% |
| Gartmore Oriental Ventures | 47.60% |
| Australian & General Exempt Fund | 46.62% |
| Thornton Little Dragons | 45.42% |
| Mercury Selected Trust, European Opportunities | 45.38% |
| Schroder Portfolio Selection, Gold Fund | 42.60% |
| GAM Hong Kong | 38.52% |
| Schroder Portfolio Selection, Australian Fund | 37.61% |

*Source: Lipper Analytical Services Inc*

By John Meehan

OFFSHORE FUNDS that specialized in smaller Asian markets and Australia turned in a strong performance in the third quarter, as managers of other portfolios struggled to overcome the prevailing uncertainties in the larger world markets.

In the three months ended Sept. 30, the 12 offshores that invest in a range of Southeast Asian markets were up 18.32 percent. But it was clear from the results of single-country funds that the biggest gains were made in Taiwan and Hong Kong, two of Asia's so-called "little dragon" markets.

Funds that specialized in Hong Kong generated a total return of 25.86 percent, while the two funds that focused exclusively on Taiwan were up 68.28 percent, according to Lipper Analytical Services, which tracks 482 offshore funds. Australian funds showed a return of 27.38 percent.

By contrast, European funds generated a return of 11.17 percent in the same period, while funds that

## The quarter's stars: Taiwan, Australia and Hong Kong

specialized in U.S. equities were up a mere 3.71 percent. Still, the big disappointment occurred in Japan, where nagging doubts about the vitality of the Tokyo Stock Exchange took its toll. Average returns on Japanese funds were up only 6.94 percent.

Bond funds, in general, had a dismal quarter. The 197 fixed-income portfolios tracked by Lipper Analytical generated an average negative return of almost 1 percent. The weakness was symptomatic of the bearish mood that has descended on bond markets worldwide because of rising interest rates.

The quarter's best performer, the Taiwan (R.O.C.) Fund, generated a total return of 70.43 percent in the latest quarter. Its sister portfolio, the First Securities Investment Trust, a New Taiwan dollar-based fund, was ranked second at 66.14 percent.

The funds are just two of a handful of funds open to foreigners who want to invest in the Taiwan market. The Taiwanese government prohibits direct foreign ownership of stocks.

Single-country funds that invested solely in other tiny Asian markets were less fortunate. Markets in the Philippines and South Korea ran afoul of the political problems that arose in the latest quarter. Likewise, the seven funds that specialize in the Singapore-Malaysia market had a return of less than 5 percent.

"It was an extraordinary quarter," acknowledges Steven Champion, president of the International Investment Trust Co., a Taipei company that manages both Taiwan funds.

Indeed, despite their strong performance, both funds lagged behind the overall market. The Taiwan Stock Exchange index rose 170 percent in the latest quarter and was up more than 300 percent in the first nine months of the year.

Mr. Champion attributed the rally to promising economic fundamentals, but also to excessive liquidity that saw too much money chasing too few stocks.

The difficulty in obtaining shares in financial companies, many of which are owned by the government, best explains why the funds could not match the market's performance, according to Mr. Champion.

Financial stocks account for 45 percent of the market's weighted index. But Mr. Champion only had 12 percent of the $403 million Taiwan Fund in financial shares. "We try to diversify across all sectors of the economy," he says. "But it's very hard to duplicate the market."

Some of the fund's best performers during the quarter included Cafe Construction and China Steel. Cafe Life Insurance was another strong stock.

Whether the rally will continue in the final quarter is uncertain, Mr. Champion says. The market is already showing signs of fatigue, he says, and given the market's recent speculative edge, many experts anticipate a correction. "Just as nobody knew what the

Continued on page 8

# On the Move In Manila

By Patrick L. Smith

*Hong Kong*

FOR JAMES MELLON, investing in the Philippines started almost as an accident. On a vacation in Manila two years ago, the managing director of *Thornton Management (Asia) Ltd.* simply wandered into the Manila Stock Exchange one hot, uneventful afternoon.

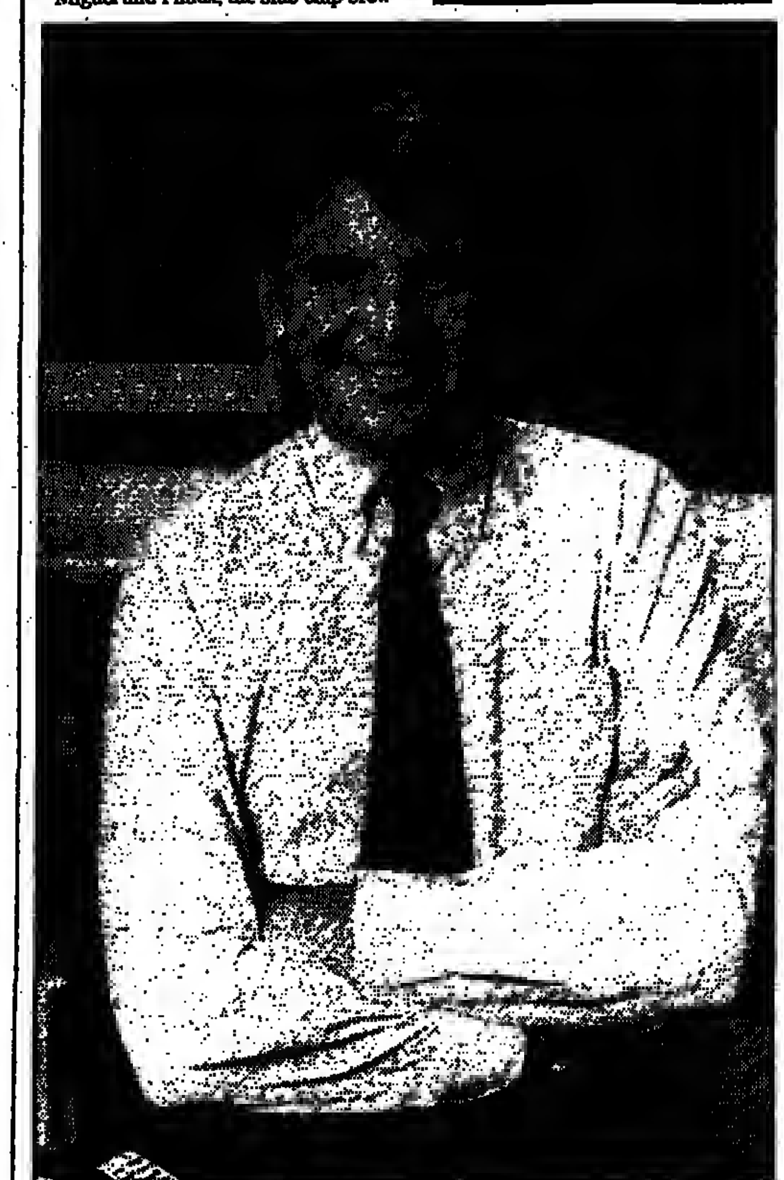
"There wasn't a sign of activity — no one in sight," the 30-year-old Mr. Mellon recalls. "The last share transaction listed on the board was dated 1983. The number of active brokers had gone from 300 to two."

Intrigued, and with a slight sense of living on the edge, Mr. Mellon put $20,000 of his own money into San Miguel and Philex, the blue-chip brewer and equally well-regarded mining company. "It took six weeks for Vickers da Costa to fill the order," Mr. Mellon says.

A month later, Thornton's Pacific Investment Fund was reorganized as a mutual fund. And it soon began to invest in the Philippines for the first

Continued on page 9

*The political uncertainties don't deter James Mellon*



*James Mellon in the offices of Thornton Management (Asia) Ltd. in Hong Kong.*

# Pacific Plays: A Taiwan Fund Takes The Honors

Continued from page 7

upside was going to be," Mr. Champion says, "nobody knows where the downside could be."

Among Australian funds, M&G's Australian & General Exempt Fund was the best performer with a return of 46.62 percent in the latest quarter.

Portfolio manager David Hutchins notes that 75 percent of the fund's assets are invested in natural-resource stocks, with the remainder in selected industrial issues. He also credits the appreciation of the Australian dollar, which advanced strongly after the government unveiled a favorable budget package in early September.

Mining stocks, such as Western Mining, were among his best performers. But he says this had less to do with the continued fascination with gold shares than a "belief that commodity prices will take off." As for nonmining issues, he says Elders IXL, which owns stakes in Fosters, the brewer, and Broken Hill Properties, also proved a strong gainer.

Gold funds also proved resilient, up 21.47 percent during the third quarter. Schroder's Portfolio Selection Gold Fund was the best performer, generating a return of 42.6 percent.

ONCE AGAIN, the success of gold portfolios had little to do with precious metal prices. Instead, David Smith, who manages Schroder's gold portfolio, says gold stocks continued to benefit from investors who grew leery of the prolonged rallies in major markets and sought some diversification.

"I don't see gold prices doing much," he says. "But there's been a nice, steady flow of money into gold stocks."

About 40 percent of Mr. Smith's portfolio is invested in South African shares. Earlier this year, many gold funds were reluctant to invest in South Africa because of the political uncertainties. Moreover, political pressure created by the growing anti-apartheid sentiment, especially in the United States, forced many investors to divest their South African holdings.

Mr. Smith says that he is "not blind to the political uncertainties" but notes that his fund's stated objective is to invest in gold shares. South Africa, he says, offers the best value. In fact, he says he has been selling some of his Australian stocks, which account for 28 percent of the fund's assets, during the market's recent rally.

Mr. Smith says most of the major South African mines are included in his portfolio. He also owns shares in Eestling, a recent issue. "They all have been creeping up," he says. "But there are no big winners." In Australia, Mr. Smith says Paringa Mine & Exploration and Whim Creek have proven strong performers.

In light of the specialized nature of the quarter's most successful funds, Mercury's Selected Trust European Opportunities Fund seems an odd addition to the list of the top 10 funds.

Consuela Bronke, director of Mercury Asset Management Holdings, says the fund proves it is a fallacy "that you can't invest in Europe anymore." She adds, "These markets are by no means dead."

About 30 percent of the fund's assets are in Portugal, and another 30 percent in Switzerland, mostly warrants on registered shares. Spain is her next favorite market and accounts for 20 percent of the fund's holdings.

The fund underweights the larger European markets. British shares make up no more than 12 percent of the portfolio. West German and French shares account for less than 10 percent.

Among individual stocks, Ms. Brooke says some of the fund's strongest performers are in Portugal and include Cobra, which makes construction materials, and Losour, a land developer.

In the United States, managers who bet on companies positioned to cash in on a vigorous economy and a lower dollar fared well.

"We continued to have heavy investment in economically sensitive stocks, with a major focus on technology," says Joseph McNay of Essex Management, who guides Global Asset Management's Boston Fund. It is the best performer this year among the more than 64 offshore funds that specialize in the U.S. stocks, with a return of over 70.7 percent in the first nine months.

"Our biggest single focus is the current level of the dollar," Mr. McNay says. The companies in which he invests have become more competitive as the dollar has weakened, though he believes the U.S. currency's decline is largely over. Many of the companies slimmed down and restructured their operations during the preceding period of dollar strength. Now, they are profiting from more efficient operations and, in some cases, a wave of product introductions.

Big gainers in the Boston Fund's portfolio include technology stocks such as Apple Computer, Intel, Motorola and Hewlett Packard. The fund also has done well in so-called cyclical growth stocks, especially chemical and forest-product issues. In the fourth quarter, Mr. McNay says the fund may broaden its holdings in this area, adding specialty chemical makers and distributors of industrial products.

Mr. McNay takes a negative stance on consumer-related issues, especially specialty retailers. These issues fared poorly in the third quarter.

Though some of the narrowly focused funds turned in spectacular performances, it was clearly more difficult in the third quarter to match the stunning gains that characterized the performance of offshore funds earlier in the year. In large part, this reflects the general fatigue that seemed to overtake many of the world's stock markets at the beginning of the summer. □

## OVERALL LEADERS

Total return in dollars for perioda anding Sept. 30, 1987

### Year to Date

| | |
|---|---|
| Taiwan (R.O.C.) Fund<br>Int'l Investment Trust Co. | 159.75% |
| First Securities Invest.<br>Int'l Investmant Trual Co. | 152.39% |
| Australian & Gen'l Exempt<br>M&G Group | 135.87% |
| Save & Prosper Gold<br>Seve & Prosper Mg't. (Jersey) | 133.42% |
| Gartmore Japan Warrant<br>Gartmore Fund Maneqers | 126.88% |
| Gold Exempt (Ac.)<br>M&G Group | 118.66% |
| Gold Exempt (Inc.)<br>M&G Group | 117.42% |
| Barclays Uni-Australian (Inc.)<br>Barelays Unicorn Int'l | 105.76% |
| Barclays Uni-Australian (Ac.)<br>Barclays Unicorn Int'l | 105.46% |
| GAM Pension & Charity UK<br>Global Assel Management | 104.05% |

### Twelve Months

| | |
|---|---|
| Australian & Gen'l Exempt<br>M&G Group | 206.50% |
| Taiwan (R.O.C.) Fund<br>Int'l Invastment Trust Co. | 188.14% |
| Barclaye Uni-Australian (Inc.)<br>Barclays Unicorn Int'l | 187.44% |
| Barclays Uni-Australian (Ac.)<br>Barclays Unicorn Int'l | 186.01% |
| First Securities Invest.<br>Int'l Investment Trust Co. | 180.07% |
| Gartmore Oriental Ventures<br>Gartmora Fund Managers | 167.03% |
| Thornton Hong Kong & China<br>Thomton & Co. | 146.67% |
| Baring Hong Kong<br>Baring Int'l Fund Managers | 146.39% |
| Save & Prosper Gold Fund<br>Save & Prosper Mg't (Jersey) | 144.49% |
| Five Arrows Australia<br>Rothschilds Australia | 139.74% |

### Two Years

| | |
|---|---|
| Gartmore Oriental Ventures<br>Gartmore Fund Managars | 513.71% |
| JF Philippina Trust<br>Jardina Fleming | 431.89% |
| Taiwan (R.O.C.) Fund<br>Int'l Investment Trusl.Co. | 352.23% |
| JF Pacific Securities<br>Jardine Flaming | 349.93% |
| JF Pacific Incoma<br>Jardına Fleming | 349.16% |
| Espac<br>UBS/Intraq | 313.55% |
| Lazard Bros. Far Eastern<br>Lazard Secuntias (Jersay) | 276.20% |
| JF Japan Trust<br>Jardına Flemıng | 268.80% |
| Thornton Hong Kong & China<br>Thornton & Co. | 238.77% |
| JF Hong Kong Trust<br>Jarding Fleming | 236.38% |

### Five Years

| | |
|---|---|
| JF Pacific Income<br>Jardine Fleming | 1,007.93% |
| Quantum Fund<br>Soros Fund Management | 781.51% |
| JF Japan Trust<br>Jardine Flaming | 749.27% |
| JF Pacific Securities<br>Jardina Flaming | 708.34% |
| Hambros Pacific Japan<br>Hambros Fund Managers | 662.38% |
| Schroder Japan Fund<br>Schroders Asia Ltd. | 631.02% |
| GT Japan Small Cos.<br>GT Group | 603.95% |
| Lazard Bros. Far Eastern<br>Lazard Sacurities (Jarsey) | 589.96% |
| Espac<br>UBS/Intraq | 546.25% |
| Worldinvest Equity Fund<br>BA Investment Managemant | 539.13% |

Source: Lippar Analytical Services

## Currency Funds: Third Quarter

Total return in dollars

| | |
|---|---|
| Shroder Portfolio Selection,<br>Sterling Fund | 5.30% |
| Bermuda Int'l Currency Fund,<br>U.S. Dollar/Sterling Class | 5.00% |
| Thornton Liquid Reserves,<br>Sterling Class | 4.96% |
| Barclays Unicorn Multicurrency,<br>Sterling Class | 4.62% |
| Baring Currency Fund,<br>Sterling Class | 4.06% |
| Guiness Flight Global Strategy,<br>Sterling Money Fund | 4.03% |
| Henderson Global Strategy,<br>Sterling Cash Shares | 4.00% |
| Old Court Int'l Reserves,<br>Australian Dollar Shares | 3.95% |
| Old Court Currency Fund,<br>Australian Dollar Shares | 3.92% |
| Henderson Managed Invest.,<br>Sterling Cash Sub. Fund | 3.84% |

# A Tranquil Period for Currencies

OFFSHORE CURRENCY funds, among the chief beneficiaries of the dollar's steep decline last year, saw their performance sharply curtailed in the latest quarter by the relative tranquility of foreign exchange markets and the increase in interest rates worldwide.

Funds denominated in sterling generated a total return of 3.29 percent in the third quarter, according to Lipper Analytical Services. Japanese yen funds were up 2.35 percent while dollar-denominated funds showed a return of only 1.24 percent. Deutsche mark funds turned in an equally disappointing quarter with a total return of just 1.1 percent.

The 152 deposit funds tracked by Lipper Analytical had average returns of 1.5 percent. Deposit funds function much the same way as money-market funds. Assets generally are invested in short-term currency deposits and money-market instruments in the same currency as the fund's shares.

Fund management companies typically offer a family of deposit funds in various currencies. This allows investors to switch among currencies according to their needs and their views on the foreign exchange market. In the latest quarter, however, there were no big winners.

Managed currency funds did slightly better. The 45 funds measured by Lipper Analytical showed an average return of 1.77 percent, despite their typically more aggressive management approach. Managers of these funds generally switch among financial instruments in various currencies to maximize gains in the value of their funds' dollar-denominated shares.

"It's no mystery. Currency funds do well when the dollar is declining," says the director of a London-based managed fund. Indeed, since last February, when finance ministers and central bank governors from leading industrial nations devised the so-called Louvre Accord to stabilize the dollar, an uneasy calm has settled upon currency markets. In the absence of volatility, no currency has sustained a steep gain in value.

Moreover, the apparent decision by the U.S. Federal Reserve, as well as monetary authorities in Europe and Japan, to pursue less accommodative interest rate policies has severely limited the returns on fixed-income investments.

Robin Comer, the manager of Schroder Portfolio Selection Sterling Currency Fund, blames higher short-term interest rates in Britain for the relatively disappointing performance of his fund. Although Schroder's sterling deposit fund was the quarter's best performer, it generated a return of just 5.3 percent.

As for the future, Mr. Comer believes sterling rates will continue to rise, pushed higher in response to the Fed's attempts to nudge rates higher in support of the dollar. "I certainly can't see rates coming down for the moment," he says. □

—John Meehan

OFFSHORE

# Portfolio Update: Mixed Views on the U.S.

## The big bets are on U.K., Far East and European shares.

By Marybeth Nibley

*London*

BRITISH SHARES and selected Far Eastern and European markets look attractive, but there are some doubts about U.S. stocks. That seems to be the message from three investment advisers who were asked to construct a portfolio of offshore funds for an investor with $50,000.

The model portfolios above were designed for a dollar-based investor who emphasizes growth over income and is comfortable with only moderate risk. The breakdowns reflect the advisers' current expectations for markets over the next six to 12 months. Figures do not take into account commissions, advisory fees or taxes.

**PORTFOLIO 1**
Hill Samuel Investment Management Int'l.

| | |
|---|---|
| Hill Samuel Overseas Fund | $12,000 |
| Hill Samuel Int'l Bond Fund, Dollar Class | $7,000 |
| Hill Samuel European Equity Fund | $9,000 |
| Hill Samuel Int'l Bond Fund, Sterling Class | $2,750 |
| Hill Samuel Crossbow Fund | $10,500 |
| Hill Samuel UK Growth Fund | $6,250 |
| Hill Samuel Int'l Currency Fund, Dollar Class | $2,500 |

**PORTFOLIO 2**
Hoare Govett

| | |
|---|---|
| Fidelity Performance Portfolios UK Fund | $15,000 |
| Mercury Selected European Fund | $5,000 |
| Jardine Fleming Japan Trust | $15,000 |
| Jardine Fleming Pacific Income Trust | $5,000 |
| Thornton Tiger Fund | $5,000 |
| Mint Limited | $2,500 |
| Save & Prosper Gold Fund | $2,500 |

**PORTFOLIO 3**
Kleinwort Grieveson

| | |
|---|---|
| Hambro Special Situations Fund | $10,000 |
| Kleinwort Benson Int'l Accumulation Bond Fund | $10,000 |
| Fleming European Fledgling Fund | $7,500 |
| Baring Octopus Fund | $7,500 |
| Kleinwort Benson Japan Fund | $5,000 |
| Kleinwort Barrington American Smaller Companies Trust | $5,000 |
| Cash | $5,000 |

There were few dramatic shifts from the portfolios that the same advisers recommended in the April issue of Personal Investing. All still include substantial exposure to funds specializing in Far Eastern, European and British shares. There is, however, a difference of opinion on Wall Street's prospects.

Hill Samuel raised the amount in its Crossbow Fund, which specializes in Far Eastern equities and convertible securities, to $10,500 from $6,250.

Hoare Govett held its exposure to Japanese securities about steady and took some profits on its holdings in the Thornton Tiger Fund, reducing its stake to $5,000 from $7,500. The Tiger Fund, which invests in smaller Asian markets, was up more than 15 percent in the third quarter alone.

Kleinwort Grieveson raised its bet on Asia's emerging markets by increasing holdings in the Baring Octopus Fund to $7,500 from $5,000. Japanese exposure held steady at about $5,000.

The two Pacific markets that seem to have caught the advisers' interest are Hong Kong and Australia. John G. Stephens, investment director of Hill Samuel Investment International, says he has a bullish attitude toward Hong Kong because of depreciation of the Hong Kong dollar, which is linked to the U.S. dollar. The currency weakness should enhance Hong Kong's export opportunities, he says.

Hong Kong government officials recently estimated that the economy would bound ahead at a 12 percent annual pace this year, double the rate initially forcast. "Share prices should rise quite substantially in the next nine months," says Mr. Stephens.

As for Australia, Mr. Stephens described himself as "quietly confident." Australian gold-related shares should benefit from the continuing uncertainties in South Africa, and generally strong stock market there. Hoare Govett (Channel Islands) Ltd.'s portfolio also stands to profit on these shares through its $2,500 holding in the Save & Prosper Gold Fund.

All three portfolios took a positive stance on the British market. Hoare Govett puts a hefty $15,000 of the $50,000 into a Fidelity fund specializing in U.K. equities and convertibles. In April, the firm had earmarked $12,500 for the Hambros Special Situations Fund.

"The U.K. market should do nicely, given there aren't many major cash calls," says Andrew Buchanan, the firm's director, referring to a recent wave of rights offerings and new issues.

Peter Saunders of Kleinwort Grieveson agrees. He believes economic fundamentals will again start asserting themselves in the British market.

"The market has had a setback with all the money being raised, including the big British Petroleum offer," he acknowledges. "On the more positive side, corporate news is good. If you look at other world markets, the U.K. market is inexpensive, which we think puts a downside limit on it."

KLEINWORT GRIEVESON Investment Management doubled its portfolio's exposure to the British market by allotting $10,000 to the Hambro Special Situations Fund. In April, it had $5,000 in the Hambro U.K. Growth Fund.

Kleinwort's portfolio maintains a considerable exposure to international bonds, which will give it an opportunity to cash in on any easing of interest rates in key markets or favorable currency shifts. Peter Saunders, head of the firm's private client affairs, says the firm foresees a "mild technical recovery" in bonds. Hill Samuel scaled down its portfolio's exposure to dollar bonds, to $7,000 from $10,000 in April.

There was some divergence of strategies in Europe. Hill Samuel committed $9,000 to its European fund, up from $7,500 in April. But Hoare Govett and Kleinwort scaled back European holdings.

Hoare Govett cuts its holdings in the Mercury Selected European Fund to $5,000 from $7,500, and Kleinwort opted for a $7,500 commitment to the Fleming European Fledgling Fund. In April, Kleinwort had devoted $10,000 to the F&C European Fund.

Two of the three advisers exhibited some doubts about the U.S. outlook.

"We don't like the United States," says Mr. Buchanan of Hoare Govett. "We don't like the currency risk. The hope of lower interest rates has been dashed."

Kleinwort Grieveson has somewhat more confidence, but prefers to bet on smaller American companies.

Mr. Stephens of Hill Samuel remains bullish. He expects the dollar's decline to help U.S. companies regain competitiveness.

The odds are that inflation will remain in check as the economy expands moderately over the next year, he adds. □



PROFILE

# Thornton's Manila Play

Continued from page 7

time, acquiring its first shares in Manila, $500,000 worth of San Miguel.

So began a commitment in the Philippines that now totals roughly $100 million, spread among 14 Thornton funds. Mr. Mellon's pride is the $11.3 million Philippines Redevelopment Fund, an offshore fund that was launched in June 1986. Since the start of the year, the fund has generated a total return of 69 percent, according to Lipper Analytical Services.

That record punctuates a nine-year career in fund management, which started immediately after Mr. Mellon graduated from Oxford in 1978 after having studied philosophy, politics and economics. After spending two years in Hong Kong for G.T. Management and several more in California, Mr. Mellon followed Richard C. Thornton from G.T. back to Hong Kong in early 1984, when Mr. Thornton set up his Asian headquarters.

Part of the gain in Manila, Mr. Mellon acknowledges, was a simple matter of being in the right market at the right moment.

Thornton paid 16 pesos a share for San Miguel back in 1985, 15 centavos for Philex and 38 pesos for Philippine Long Distance Telephone; the Manila index stood still at 140.

The rewards, of course, have been extraordinary. After adjustments for share splits, those three issues went up to 235 pesos, 83 centavos and 820 pesos, respectively. In early August, the Manila commercial and industrial index hit a peak of 1,250.

After the final two-month spurt that was characterized by virtually indiscriminate buying, Manila has now given back almost half of its two-year gain. The attempted military coup and lingering uncertainty about President Corazon C. Aquino's administration has clearly unnerved many investors in recent weeks. Yet, Mr. Mellon is undaunted.

"It may sound naive, but I think Aquino will serve out her term," Mr. Mellon says, sunburned from a mid-September trip to the capital. "Each test of strength makes her a better administrator."

Mr. Mellon is equally confident about the future of the Philippine economy. The first half of 1987 has already seen a boom in consumer spending and a 29 percent increase in construction activity. Mr. Mellon cites the deregulation of national monopolies and external factors, such as the strength of the yen,

> Mellon believes Mrs. Aquino will serve out her term.

increased foreign aid and higher commodity earnings, as reasons for his upbeat outlook.

"The consensus is that the economy will grow by 5 percent to 6 percent this year," he says. "We say 7 percent to 9 percent in real terms. The magnitude of the recovery will be far greater than anyone thinks."

This, indeed, is a minority view among independent economists. The year-old recovery, many believe, is so far attributable chiefly to government pump-priming, catch-up investment and improvements in commodity prices, not production.

Neither do many observers exhibit the same confidence that Mr. Mellon professes in Mrs. Aquino's ability to turn around her deeply divided and, some would say, ineffectual administration. For him, however, the answer to all this lies in share prices themselves.

"The market is a precursor," Mr. Mellon asserts. "A sevenfold rise in prices has got to be a signal that something important is happening in the economy."

Mr. Mellon has played the market almost perfectly since the day the fund was launched. With only $10,000 in subscriptions when Philippines Redevelopment was first offered, the fund grew to almost $20 million in July, remaining fully invested throughout the market's rally.

Just before the market turned two months ago, however, Mr. Mellon cashed in half of his holdings. The reason was simple, he says. The talk in the market had quickly come to be dominated by the half dozen oil stocks listed on Manila's twin exchanges.

The oils are perennial late-cycle stocks in the

The Associated Press

*Mellon calls Manila's downturn a healthy correction.*

Manila market," he says. "When local institutions are recommending them, the endgame has come."

As a result of that move, Mr. Mellon spared investors in Philippines Redevelopment a lot of pain. In the latest quarter, the fund had a negative return of 6 percent, according to Lipper Analytical. By contrast, the market is down 45 percent from its summertime peak.

Like other analysts and fund managers, Mr. Mellon views the market's recent downturn as "a normal, healthy correction" in a much-overheated environment. He now sees an upward potential of 30 percent to 40 percent in prices before the end of the year.

Given the current rate of earnings growth — Mr. Mellon expects corporate profit gains to average between 30 percent and 40 percent in the coming year — Manila remains a relatively cheap market, with a prospective price-earnings multiple of 12. The resistance, he says, will come at around 1,250 on the commercial and industrial index, since so many of the summer's speculators bought in at the peak.

"The market's waffling at the moment," Mr. Mellon says, "but the worst of the drop is behind us."

Reflecting this view, Mr. Mellon has been moving the fund back into equities since early September. How quickly it will again be fully invested depends on price, since he says his buying programs are designed to take account of further market drops.

The emphasis this time will be different: San Miguel and Philippine Long Distance Telephone previously accounted for about 40 percent of the overall portfolio. The rest was spread more or less evenly among the market's handful of blue chips.

Reflecting Mr. Mellon's radically bullish view of the prospects for Philippine gold and copper producers, mining stocks — Benguet, Philex and Lepanto — will account for more than half his portfolio, he says, compared to their previous weighting of 15 percent or so.

He is also optimistic that the government will take steps to alleviate the market's tight supply of quality stocks, a perennial problem among Asia's small markets.

OF THE 400 industrial and service concerns now in the administration's hands, 180 are currently eligible for privatization. Mr. Mellon expects Finance Minister Vicente Jaime, who replaced Jaime Ongpin in September, to be more effective in pushing this program forward. But he acknowledges that it is difficult to predict when the government will act.

"These are ideal market vehicles — visible, tangible and with good-quality assets," Mr. Mellon says.

Of particular interest to Mr. Mellon is Philippine Airlines, when it is fully refinanced, and the famed Manila Hotel. Resorts in Baguio and Puerto Azul also intrigue him.

On the industrial side, he is hoping to see Manila Electric Power Co. and Philippine National Steel Co. come to the market, as well as the 38 percent stake in San Miguel and 20 percent interest in Philippine Long Distance Telephone that have been sequestered by the government. □

MUTUAL FUNDS

# Betting on Fund-Management Stocks

By David Lanchner

New York

WHEN INTEREST RATES began to climb last April, the impact on the U.S. mutual fund industry was devastating. The popularity of mutual funds that specialize in bonds collapsed. Shares in the management firms that offer them plummeted by almost a third. And a cloud suddenly descended on an industry that had grown by a robust 40 percent a year since 1984.

Yet, the question asked more frequently nowadays is whether the adjustment may have been too severe. And despite some reservations, industry experts say yes.

To be sure, fund management companies have been too dependent on bond funds. After several months of declining sales, some may even find themselves in a net redemption situation this autumn.

But in some cases, companies with strong marketing abilities have been able to staunch the flow and actually increase earnings by diverting redemptions from fixed-income funds into money-market and equity funds.

This resiliency seems to have gone by unnoticed by many investors, who, according to industry analysts, *mistakenly assume that* the earnings of all fund management companies mirror the ups and downs of particular markets, or are interest-rate sensitive.

"*Most of these companies* have gone public in the last three or four years and the dynamics of the sector are still insufficently understood by Wall Street," says Lacy McNaron Shockley, an analyst with Mabon, Nugent, one of the few brokerages currently following the mutual fund business.

The tendency to lump the good companies with the bad has produced significant value in a oumber of fund management stocks, notably, T. Rowe Price and Dreyfus Corp.

With both companies trading at about 13 times earnings, down from a March multiple of about 19, and future growth pegged at near 20 percent a year, virtually all analysts rate these two stocks a buy.

"That's no accident," says Ms. Shockley. "Dreyfus and T. Rowe Price stand out among the dozen companies that trade publicly because they charge no sales commission."

In general, these so-called "no-load" fund groups have radically different marketing and profit structures that make earnings and growth much more stable.

'Most of these companies have gone public in the last three or four years and the dynamics of the sector are still insufficently understood by Wall Street.'

Loads, which make up two-thirds of the mutual fund business, largely depend upon independent brokerage houses to generate sales and then split commissions with them. As sales dry up, brokers put redeemed funds in their own money-market and equity funds.

"Once the original commission has been made, there's no way a broker will shift you to a different fund in the same outside compaoy. He has more incentive to park *the* cash in *his* own brokerage funds," says Tom Ackerman, director of research at Fechtor, Detwiler, a Boston brokerage.

No-loads like Dreyfus and T. Rowe Price market directly and work assiduously at keeping clients happy. The result is loyal customers and a wide range of services and funds to choose from.

"When the bond market turns sour, as it has," says Ms. Schockley, "the no-load client is far more likely to simply shift to another fund in the same group than is the load customer."

The numbers bear her out. Assets in bond funds at both T. Rowe Price and Colonial Group, considered one of the more dynamic marketing groups, are shrinking.

But T. Rowe Price has seen a sufficient increase in interest in its other funds to keep assets growing. Therefore, unlike loads that depend on new sales to provide 40 percent of their management fees, its performance is not simply a by-product of a particularly hot or cold market.

Ms. Shockley points out that Dreyfus and T. Rowe Price are trading at a discount to the average market multiple of about 16 and expects both stocks to appreciate 30 percent to 50 percent within the next year. Other analysts expect at least a 10 percent price increase.

Still, while no-loads are the only fund groups to experience uninterrupted earnings growth this year, experts say there are some promising stocks among the loads. One of them is Franklin Resources.

Commissions charged by Franklin are about half the amount levied by other load funds. Also, like Dreyfus and T. Rowe Price, Franklin has good name recognition — the result of heavy advertising and a strong direct sales campaign.

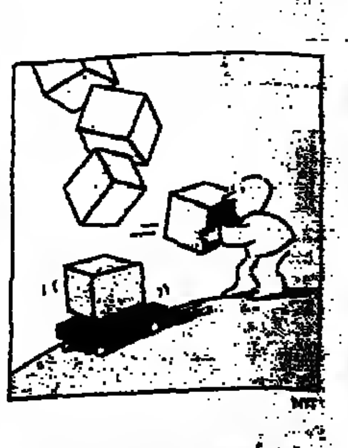
"Franklin is a bit of a hybrid and could be characterized as a low-load fund," says John Keefe, an analyst at Drexel Burnham Lambert.

The company's price-earnings multiple has dropped from a March high of 19 to a low of about 10. Its biggest problem, however, remains its high exposure to bonds. Over 90 percent of the assets under Franklin's management are in fixed-income portfolios.

Mr. Keefe, who rates the company a very attractive buy, believes that once bond yields stabilize, money should pour into the fixed income funds again.

In the meantime, he points out that Franklin is attempting to insulate itself from market fluctuations by broadening its product line. Since March 1986, Franklin has increased the assets in its equity funds by 151 percent; its money-market funds are up 17 percent.

Mr. Ackerman of Fechtor, Detwiler says one of his favorites is Eaton Vance. The company, trading at a multiple of 8, manages to keep its place on the brokers' preferred list by being innovative and offering favorable commission cuts, he says. Moreover, Eaton Vance has an attractive asset breakdown, with 50 percent in stocks, 40 percent in bonds and the rest in money-market funds.



Of course, a sweetener for any investor considering out-of-favor stocks is the possibility of a takeover. And experts say this is a strong likelihood in the fund management business.

Both Mr. Keefe at Drexel and Mr. Ackerman believe there are a number of companies that might seek a fund management acquisition.

The most likely suitors are insurance companies, which need easy access to mutual funds as they build their whole and universal life business, and European financial companies, especially those from Britain. These companies, they note, are aggressively building global fund networks. □

# Laggard U.K. Firms Offer Opportunity

DESPITE BOOMING SALES and ooteble success with global equity funds, Britain's publicly traded fund-management companies have hardly captured the fascination of investors.

"The value of the sector in relatioo to the exchange is essentially the same as it was a year ago," says Phillip Gibbs, an analyst at Alexander, Laing & Cruickshank in London.

Over the past 12 months, sales of unit trusts have increased by about 9 percent a month. And the global markets in which the firms specialize have appreciated well over 30 percent.

Mr. Gibbs calls the sector's average price-earnings multiple of 15½ "ungenerous" and believes that shares in the 11 traded firms should sell at a slight premium to the average market multiple of 17.

Simon Coombe of Phillips & Drew adds, "Even if the multiple doesn't move, people who buy the better of these stocks should see dramatic earnings increases."

The volatile nature of earnings at British fund management companies probably best explains why the multiples are down.

Unlike their U.S. counterparts, unit trusts uniformly charge a 5 percent sales commission. Fees from market-making activities is another big revenue source. However, both are highly dependent upon strong bull markets to generate business.

Not surprisingly, the popularity of these thinly traded stocks usually wanes in a bear market. And in the current market, uncertainties surrounding currency fluctuations and the vitality of global markets have kept investors away.

Mr. Gibbs says the share performance of Templeton Galbraith, the firm of the well-known global investor, John Templeton, has been held back because of its high exposure to the dollar.

Still, analysts believe the market has been too quick to dismiss the sector. The star of the fund management companies has been Mercury Asset Management. Since going public in April, its stock has appreciated 157 percent, "largely on the strength of its U.K. exposure," says Mr. Gibbs, referring to London's sustained rally.

And there are other companies worth looking at, analysts say. Three frequently mentioned ones are Edinburgh Fund Managers, Britannia Arrow and Framlington.

Britannia Arrow, trading at 14 time earnings, is rated a "buy" by both Mr. Gibbs and Mr. Coombe. Britannia Arrow's unit trust holdings grew dramatically in 1986 with the purchase of MIM, a leading unit trust manager. The firm has also been aggressive in creating marketing ventures with foreign companies, particularly in the United States.

Framlington, a strong unit trust organization, has moved to expand its range of funds to broaden its appeal to pension managers.

Like Britannia Arrow, it also has established overseas marketing arrangements. Moreover, Mr. Gibbs likes Framlington's high exposure to the London market. The stock trades at a price-earnings multiple of about 15½.

Mr. Gibbs also recommends Edinburgh Fund Managers. The firm is trying to diversify its geographical spread and already has links with U.S. and Australian fund groups.

Still, 58 percent of its assets are concentrated in the uncertain Japanese market, earning it a "hold" at Phillips & Drew. The stock trades at a multiple of 14. □

David Lanchner

## How Mutual Funds Performed in the Third Quarter

Funds showing largest percentage gain in net asset value from the previous quarter.*

| Fixed-income Funds | | Equity Funds | |
|---|---|---|---|
| Dreyfus Convertible Securities | +8.65% | Keystone Precious Metals | +26.49% |
| Loomis-Sayles Mutual | +8.30 | GT Japan Growth | +25.39 |
| Fidelity Convertible | +6.62 | IDS Precious Metals | +24.50 |
| American Capital Harbor | +5.78 | USAA Gold | +23.79 |
| Continental Government Income | +5.59 | Shearson Lehman Precious Metals | +23.62 |
| Hutton Master Convertible | +5.54 | Franklin Gold | 23.58 |
| Value Line Convertible | +5.16 | Van Eck Gold Resources | +23.30 |
| IAI Reserve Fund | +4.99 | Midas Gold Shares and Bullion | +22.93 |
| RNC Westwind | +4.85 | United Gold and Government | +22.53 |
| Kemper Total Return | +4.36 | Fidelity Select American Gold | +22.35 |

*Dividends,capital gains reinvested

Source: Lipper Analytical Services

# Bad News For Bond Funds

By Leslie Wayne

New York

US. BOND MUTUAL funds produced a negative return during the third quarter and the mutual fund industry in general did not shine, according to Lipper Analytical Services, which tracks the performance of 372 fixed-income funds and 1,341 funds overall.

It was the second consecutive quarter in which bond funds produced a negative yield, reflecting the overall dismal performance of the bond market.

Benham Target 2015, a fund based in Palo Alto, California, that invests primarily in zero coupon bonds, was the worst performer among the bond funds.

Its net asset value dropped 22.9 percent, a steep fall from 1986, when the Benham family of zero coupoo Treasury bond funds were among the best performers.

"It's the nature of the beast," says Donald Farrar, executive vice president of the Benham Management Corporation. Benham funds tend to outperform a bull bond market, he says, but underperform a bear bond market.

Fixed-income funds showed e 2.1 percent decline in value in the third quarter. They declined 1.92 percent in the second quarter.

"Interest rates started moving up this year and that became a severe problem for these funds," says Michael Lipper, president of Lipper Analytical Services.

The dismal third quarter is particularly troubling since fixed-income funds represent both the largest number of funds in the mutual fund industry and account for 40 percent of the total investment in mutual funds.

About $195 billion is invested in bond mutual funds, out of e total of $445 billion invested in all mutual funds, not including short-term money market funds.

In the first quarter of this year, when long-term interest rates were falling, bond mutual funds were being heavily promoted to investors by the mutual fund industry because they assured investors of steady and relatively high returns.

Equity funds did better in the third quarter, averaging e 5.18 percent gain, but still did not beat the Dow Jones Industrial average, adjusted for reinvestment of dividends, which increased by 8.1 percent during this period, or the Standard & Poor's 500, which rose by 6.6 percent.

The top performing equity fund was Keystone Precious Metals, based in Boston, with an increase in net asset value of 26.5 percent.

The fund benefited from a decision to invest in Australian and North American gold companies rather than South African ones, says Malcolm Pirnie, Keystone's portfolio manager.

However, Mr. Pirnie said that while gold stocks should continue to rise, the rapid appreciation that took place earlier this year should begin to taper off.

"The basic direction is up," Mr. Pirnie says, "but it would be unrealistic to expect to continue the returns that we've seen this year."

Gold equity funds showed the best performance, with a 22.14 percent gain. The strong showing among gold mutual funds continued e trend that has seen returns on these funds rise by 79 percent since the year began.

Other strong performing funds included those that invest overseas and in science and technology stocks. Laggard performers included utility, equity-income and health funds.

Still, the most dramatic events that occurred during the quarter involved the troubled bond funds, where returns have plummeted and investors have been withdrawing their funds.

"Basically, what's happening is that with the problems in the bond market, there's been a major shift in money out of fixed-income funds, as well as a general lack of interest in purchasing them," says Claudia E. Mott, a quantitative analyst with Prudential-Bache Securities Inc.

Using data compiled by the Investment Company Institute, Ms. Mott said investors have pulled $12.9 billion from bond funds through redemptions and exchanges in July and August, while $14 billion in new funds were added.

By comparison, $21.6 billion more flowed into bond funds in July and August 1986 then was taken out. During this time, bond mutual fund sales totaled $26.8 billion.

"The typical investor in a bond fund is just taking their money out of the market," Ms. Mott says. "It's not going into equity funds. It probably just leaves the market entirely."

Mr. Lipper says these redemptions could put additional pressure on an already declining bond market.

As investors redeem their shares, he says, funds may have to sell off assets, creating a glut of bonds on the market and further depressing prices. □

# Newsletter Gurus Offer to Bring Order to the Fund Chaos

By Joan Westreich

*New York*

KEN WEBER'S STORY of how he became a newsletter writer is short. After a 14-year career as a performing hypnotist, he found himself with a lot of money. Learning how to invest it led eventually to starting Weber's Fund Advisor, his monthly newsletter.

Similarly, Mr. Weber believes in keeping his advice short and sweet. "People don't want a lot of information," he says. "They just want to know where to put their money."

Their desire for simplification is understandable, given the bewildering array of funds. In the five years since the bull market began, the number of mutual funds has quadrupled to more than 2,100. Indeed, the industry hatches a new fund at the rate of one a day.

The resulting confusion swelled the ranks of newsletter advisers. New entries proliferated, and more established letters that covered stocks and bonds added features about mutual funds. Five years ago, only s handful of newsletters were around to advise mutual fund buyers. Today, no fewer than 70 vie for subscribers.

"Everyone is looking for a guru," observes Mark Hulbert, editor and publisher of the authoritative Hulbert Financial Digest, a monthly that rates newsletter performance. He tracks the performance of about 35 newsletters that offer advice on funds. The ratings are limited to newsletters that have been around et least a few years and make clear buy and sell recommendations.

As a group, the results have not been spectacular when measured against the overall market's performance, notes Mr. Hulbert. Only a handful of newsletters have done better than the 26-percent total return on the Standard & Poor's 500-stock index over the past seven years, he says.

But the funds themselves have not done so well at beating the market. In the first half, notes Hulbert, the average equity mutual fund returned only 21.1 percent compared with the S&P's 27.4 percent.

The range of the newsletters advising fund buyers defies generalization. The field encompasses Mutual Fund Forecaster, which reports a circulation of 260,000, as well as upstart ventures with only a few hundred subscribers.

Typically published monthly or bimonthly, they may provide model portfolios, ratings for a range of mutual funds, excerpts from other financial letters and general financial advice and features. Some cram their four-to-12 page letters with charts and graphs while others provide interim bulletins and telephone hotlines that give out advice at any hour of the day or night.

Some editors have traditional professional backgrounds in brokerages or money-management firms. Others, like Mr. Weber, boast more exotic stories. Peter Eliades tells of previous careers that included playing piano in bars and acting in "off Broadway" musical comedies. Now, he is editor of Stockmarket Cycles, a widely read newsletter noted for its analysis of stock market trends.

Most newsletters offer samples or trial subscriptions so readers can get e sense of the philosophy and approach. Mr. Hulbert says a potential subscriber should gauge whether the newsletter is easily understood.

But the most important factor, be says, is whether the degree of risk in the newsletter's approach seems appropriate. Using a statistical measure, Mr. Hulbert looks at the volatility of a newsletter's performance over long periods of time as a gauge of risk. If two letters have the same performance, Mr. Hulbert would pick the one with the least volatile returns.

Most advisers' approaches depend on some form of analysis of trends in the prices of funds or in the overall stock and bond market, though some editors emphasize economic factors as well.

Many of the trend-following strategies involve tracking how funds perform against one another, trying to spot the ones that are gathering upward momentum. So-called technical indicators, such as 39-week moving averages, are a favorite tool, but some editors use more complex statistical approaches.

James Stack, a former IBM research project manager and inventor, augments his technical analysis with information on Federal Reserve activity and short-term interest rates. Mr. Stack's InvesTech newsletter has taken e cautious posture lately, and his model portfolio at the end of September was 75 percent in money market funds and 25 percent in gold funds.

"All in all, this decision hasn't been a bad one," he says. "We locked in a 36-percent gain for 1987 and avoided the exasperating gyrations and nervous selloffs of the past couple of months."


Mr. Stack, wary of the effects of currency fluctuations, avoids international funds. By contrast, George Foot of the Mutual Fund Monitor, embraces the global approach.

His international portfolio of mutual fund was Hulbert's top-rated portfolio in the 18-month period ending June 30. Currently, the international portfolio is 60 percent invested in the GT Europe fund, 10 percent in the GT Pacific fund and 30 percent in a money market fund.

Norman Fosback uses a broad range of technical and monetary indicators to generate one-year forecasts for the market in the Mutual Fund Forecaster. Current best buys include Pacific Horizons Aggressive Growth Fund for high risk traders, Fidelity OTC for medium risk investors and Fidelity Growth and Income for investors with a low-risk posture. □

## HONOR ROLL

The 10 best-performing mutual-fund newsletters tracked by The Hulbert Financial Digast during the 18-month period anding June 30, 1987. Parformance figures raprasant the average return on the newsletter's recommendations. In casas where mora than one portfolio is recommanded, the avarage performance of tha portfolios was calculated.

| Newsletter | Frequency | Cost | Performance |
|---|---|---|---|
| **Margo's Market Monitor** P.O. Box 642 Lexington, Massachusetts 02173 (617) 861-1489 | Biwaekly | $125 in U.S. $150 overseas | 79.17% |
| **InvesTech Mutual Fund Advisor** 2472 Birch Glen Whitefish, Montana S9937 (406) 862-7777 | 18 issues per year | $150 in U.S. $177 overseas | 73.12% |
| **Wellington's Worry-Free Investing** 4853 Cordell Ave., Penthouse 11 Bethseda, Maryland 20814 (301) 951-3800 | Monthly | $129 in U.S. $144 oversees | 67.65% |
| **Telephone Switch Newsletter** P.O. Box 2S38 Huntington Beech, California 92647 (714) 898-2588 | Monthly | $117 in U.S. $137 oversees | 67.29% |
| **The Mutual Fund Strategist** P.O. Box 446 Burlington, Vermont 05402 (802) 658-3513 | Monthly | $127 in U.S. Seme overseas | 65.72% |
| **Weber's Fund Advisor** P.O. Box 3490 New Hyde Park, New York 11040 (516) 466-1252 | Monthly | $89 in U.S. $109 overseas | 54.24% |
| **NoLoad Fund X** 235 Montgomery St. San Francisco, Californie 94104 (41S) 986-7979 | Monthly | $95 in U.S. Same oversees | 48.87% |
| **Stockmarket Cycles** 2260 Cahuenga Blvd., Suite 305 Los Angeles, Californie 90068 (213) 456-S543 | 18 issues per year | $198 in U.S. $210 oversees (Specify fund portolio) | 41.19% |
| **The Mutual Fund Monitor** P.O. Box 628 Northampton, Massachusetts 01061 (413) 586-6520 | Monthly | $12S in U.S. $140 overseas | 40.88% |
| **Mutual Fund Forecaster** 3471 North Federal Highway Fort Lauderdale, Florida 33306 (305) 563-9000 | Monthly | $49 in U.S. $64 overseas | 40.06% |

# Fidelity Followers Keep It in the Family

MARGO Ballantine exhibits the adventurousness that marks many newsletter entrepreneurs. She has sailed across the Atlantic in a 32-foot sloop with her husband and started a quarterly publication on herbs. Then six years ago, she diversified into the financial field with Margo's Market Monitor, a bi-weekly newsletter that evaluates mutual funds offered by the giant Fidelity group.

She is not alone in this endeavor. The latest count shows a half-dozen well-known publications that devote themselves exclusively to helping investors decide which of Fidelity's 100 or so funds to buy or sell. Countless others dabble in it as a sideline.

Newsletters that focus on a single family of funds are not unique to Fidelity. But with a potentially immense readership at stake, it is hardly a surprise that the company's funds receive so much scrutiny. Fidelity manages over $85 billion spread among 4 million mutual fund accounts.

Indeed, the huge Boston-based company has taken the notion of a family of funds further than any other mutual fund group. There is virtually no sector of the stock, bond or money markets for which Fidelity has not created a fund. Investors can buy funds that specialize in utilities, technology companies, Pacific basin markets, New York municipal bonds and out-of-favor stocks.

Critics have argued that the creation of ever-more-focused sector funds runs counter to one of the major reasons for purchasing a fund. For years, funds were touted as an inexpensive way for an investor to acquire a diversified portfolio whose assets are managed by a professional. Sector funds, however, essentially force individual investors to decide how to deploy assets.

George Foot, whose Mutual Fund Monitor newsletter includes Fidelity funds in recommendations but does not use the group exclusively, says the narrowly focused funds have their perils. "They make conservative investors into hour-by-hour speculators," he says.

Still, the ease of switching among the Fidelity funds remains one of the big attractions of the group and a major marketing point for the newsletters that specialize in its funds.

Eric Kobren, a young marketing director at Fidelity, was one of the first to spot a business opportunity in the proliferation of funds. Two years ago, he quit his job and started Insight, which helps Fidelity investors sort out the differences among the various funds and the implications for their strategy.

"Obviously, my background played a large part," he says of his decision to limit the newsletter to Fidelity offerings. "But frankly, Fidelity has so many funds that it causes the most confusion."

Charlie Hooper is another veteran Fidelity watcher. His Mutual Fund Strategist eschews the conventional buy-and-hold philosophy so often applied to mutual fund investing. Instead, he favors active switching among Fidelity funds and does not hesitate to tell his 4,500 subscribers when to dump one portfolio and get into another.

On Oct. 1, Mr. Hooper switched his so-called sector portfolio out of Fidelity Select precious metals fund and into the Select technology fund. His diversified equity portfolio has been solely invested in the Fidelity Europe fund since mid-September.

Ms. Ballantine, whose Margo's Market Monitor came out on top in Hulbert's ranking of 18-month *performance ending June 30*, views her major mission as helping investors overcome their inertia when opportunities arise.

For some investors, "it's hard to switch," she says. Her sector fund portfolio has been idling in a Fidelity money-market fund since April after cashing in her gains.

For the Fidelity funds that specialize in only e few equity issues, e newsletter's recommendation of a major switch can cause havoc. Fund managers have to sell shares in the portfolio to redeem fund holdings, which in turn depresses the prices of the issues sold and the fund's net asset value.

IN RESPONSE to the growing influence of newsletters, Fidelity has tightened limits on the amount of money that can be exchanged among the funds in a single transaction. In some funds, such as the small, $1.8 million Select insurance fund, Fidelity limits the maximum exchange to $50,000. But minimums in other Select funds run into the millions, levels that would not inconvenience the average individual investor.

To avoid surprises for its portfolio managers, Fidelity has tried to develop what a spokesman called a "close and cooperative relationship" with some of the more widely followed newsletters that rely on switching strategies. The message to editors is that a little advance warning would be appreciated.

"If they work closely with us, it's good for the letters, their readers, and nothing untoward happens to the shareholders who may be affected," says the Fidelity spokesman.

In the meantime, the Fidelity faithful who actively switch among the funds will be encountering stiffer fees.

For example, investors in the 30 or so Fidelity Select Portfolio funds are currently allowed five exchanges per month among the funds and charged $10 for each transaction. After Dec. 1, the fee will be $25. (Exchanges out of the money market fund remain free.)

Faced with these new policies, some newsletter editors who had focused exclusively on Fidelity are widening their borizons. Mr. Hooper has recently begun offering a portfolio based on funds sold through Charles Schwab, the discount brokerage. "It's an alternative for investors who find themselves at the mercy of Fidelity's amount of restrictions," he says. □

Joan Westreich

The Associated Press

*Margo Ballantine writes her bi-weekly fund advisory letter from Lexington, Massachusetts.*

FOCUS

# Funds Debate Incentive Pay

Continued from page 7

the effects on funds of favorable or adverse market conditions.

In some diversified firms, the issue is sometimes one of how bonuses are allocated. A case in point was the defection this August of seven members of the international asset-management team at N.M. Rothschild & Sons, the London merchant bank. The resignations included James Heyworth-Dunne, the chief operating officer and director of Rothschild International Asset Management.

Among the team's complaints was said to be Rothschild's profit-sharing arrangement. The plan was pegged to the broader performance of the merchant bank, rather than rewarding the asset-management team on the basis of its contribution to the bottom line.

Mr. Hayworth-Dunn and other members of the former Rothschild team have started an investment boutique in London named HD International, which will offer fund-managment services exclusively. To Richard Chandler, one of the principals of the new firm and e former director at Rothschild International Asset Management, the prospect of having a direct interest in the firm is alluring.

"It is obviously exciting to be in e place where you have a stake in your own success," he says. □

Marybeth Nibley

**STRATEGY**

# Funds: Balancing Risk, Reward

By John C. Boland

FOR INVESTORS eager to put money into the U.S. stock market but skeptical of their ability to pick good stocks, most brokers, advisers and financial columnists in recent years have advised buying a mutual fund, particularly one with a superior, long-term track record.

Often, the broker or adviser has just such a fund at hand, which may be managed in-house or carry a generous sales commission. Disinterested advisers usually add the words "no load," or no sales charge, to the list of characteristics that make a fund attractive.

Even then, the investor's job is daunting. Selecting a mutual fund involves many decisions similar to those faced in choosing an individual stock. Mutual funds are, after all, simply companies whose business is investing money for others. Management skill, business outlook and historic performance, while important, are no more infallible as guides to a fund's future as to a manufacturing company's future.

The attraction of mutual funds is that they provide a ready-made diversified portfolio. This insulates an investor from much of the risk and reward of investing in individual stocks. But skeptics of the industry offer caveats.

Over time, mutual funds as a group tend to reflect the performance of the broad market. Thus, even a fund with a superior five-year or 10-year record can lose money for investors in a bear market. By some onlookers' reckoning, the funds could be especially vulnerable in a bear market if shareholder redemptions forced the managers to dump stocks.

One way to control risk is by using the mutual fund as part of a portfolio, with other assets in such alternatives as money-market funds, says Robert Kinsman, who edits the Low-Risk Growth Letter in San Rafael, California.

He says an investor can adjust market risk by shifting the amount of equity funds and cash held. Success, though, requires skill in recognizing when the market contains high or low risk — an art that regularly eludes fund managers and other professionals.

In picking an equity fund, Mr. Kinsman looks to the track record and volatility relative to the market. Recently, he recommended the Manhattan Fund, with $528 million in assets at midyear, which has gained 280 percent in five years through June 30. That period, which dates roughly from the start of the bull market, saw the Standard & Poor's 500-stock index rise 242 percent.

The Manhattan Fund's performance ranked it 15th nationally for the five years, according to Lipper Analytical Services. While some specialized funds did far better — the Merrill Lynch Pacific Fund topped the field with a 486 percent gain — Mr. Kinsman and other advisers are wary of such funds.

Gold stock funds performed spectacularly well in the late 1970s, says Joe Mansueto, president of Mutual Fund Values, a Chicago service that rates mutual funds. "But when inflation subsided, they had some rough years," he says.

Investors must also look beyond five- and 10-year track records, Mr. Mansueto says, to see whether the performance is consistent. The American Capital Pace Fund, for example, ranked fifth on Lipper's roster of top performers in the 10 years to June 30, with a gain of 1,022 percent. But, Mr. Mansueto says: "Most of that came from the early years; since then, they've had a change of fund managers." In the last 12 months, the $3 billion fund substantially lagged behind the overall market.

Mr. Kinsman gives the no-load Manhattan Fund high marks for consistency. "It has been a very good performer for the risk that it takes," he says. Steady gains also characterized these funds:

- The Sequoia Fund, an $800 million no-load fund. Its results in the last five years have not been spectacular — up 220 percent, or about 20 points behind the S&P 500. The fund is closed to new money — "a shame," Mr. Mansueto says. "It's my favorite fund," he adds. "They have a logical, disciplined value-oriented investment style."
- The Pennsylvania Mutual Fund, a no-load fund with $360 million under management that likewise gets high marks from Mr. Mansueto. "They have a strong value emphasis, focusing on smaller-capitalization stocks, and they're very good at limiting risk," he says.

In the last five years, the fund has risen 241 percent, roughly matching the S&P 500. In the latest year, it was up only 10 percent, well behind the averages. "This might be a very opportune time to invest in Penn Mutual," Mr. Mansueto says. "Small-cap stocks have lagged big-cap issues for a number of years, and that's likely to change."

- Mutual Shares, with $1.9 billion under management at midyear. This no-load fund is also closed to new accounts. In the five years through June, the fund's value grew 235 percent. "They do a lot of distress situation investing," Mr. Mansueto says. "They tend to buy after all the bad news is out. If you get enough of these in a portfolio, it turns out to be a very low-risk way of investing."

Other diversified funds with steady, long-term performances include the low-load Fidelity Magellan Fund, an $11 billion leviathan that is up 376 percent in the last five years, and the $6 billion no-load Windsor Fund, up 279 percent, which is closed to new investors.

Still, the big question is whether these funds would win laurels in a weak market. William E. Donoghue, president of Donoghue's Money Letter, is doubtful that any fund can weather all seasons. "People look at track records a lot," he says. "I ask them, 'Can you buy the fund five years ago?' I can guarantee you, the world's worst investment has the best track record right before it declines." □

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## Market Scoreboard

Stocks on the New York, London and Tokyo axchenges that showed the largest percentage gains and losses in September.

**New York Stock Exchange:**
Compiled by Media General Financial Services. Prices in dollars

| | Percent Gain | Price Sept. 30 | | Percent Loss | Price Sept. 30 |
|---|---|---|---|---|---|
| Atlas Corp. | 77 | 50.00 | Gap Inc. | 45 | 38.25 |
| Wynn's Int'l | 56 | 29.63 | Ames Dapt. Stores | 31 | 17.25 |
| Dyncorp | 54 | 24.50 | Telex Corp. | 26 | 51.63 |
| Irving Bank | 51 | 76.63 | Limited Inc. | 23 | 36.00 |
| Brockway Inc. | 47 | 58.88 | Phillips-Van Hausen | 23 | 15.00 |
| Service Resources | 40 | 11.88 | Family Doller | 23 | 12.38 |
| Bundy | 39 | 41.25 | Reebok Int'l | 20 | 17.63 |
| Geico | 38 | 31.13 | Cray Research Inc. | 19 | 92.88 |
| First Mississippi | 36 | 18.38 | Wickas | 19 | 16.50 |
| Tractor Inc. | 35 | 32.00 | Panhandla Eastern | 19 | 27.38 |

**American Stock Exchange:**

| | Percent Gain | Price Sept. 30 | | Percent Loss | Price Sept. 30 |
|---|---|---|---|---|---|
| Viatech Inc. | 112 | 34.25 | Philippine Telephone | 37 | 20.25 |
| Hal Inc. | 50 | 47.00 | Texas Air Corp. | 30 | 22.25 |
| Porta Systems Corp. | 44 | 11.50 | American Biltrite | 24 | 12.38 |
| Stevens Graphics | 38 | 16.75 | Hudson Foods (A) | 23 | 11.63 |
| Pantasote Inc. | 36 | 14.50 | Hovnanian | 20 | 13.13 |

**Over the Counter:**

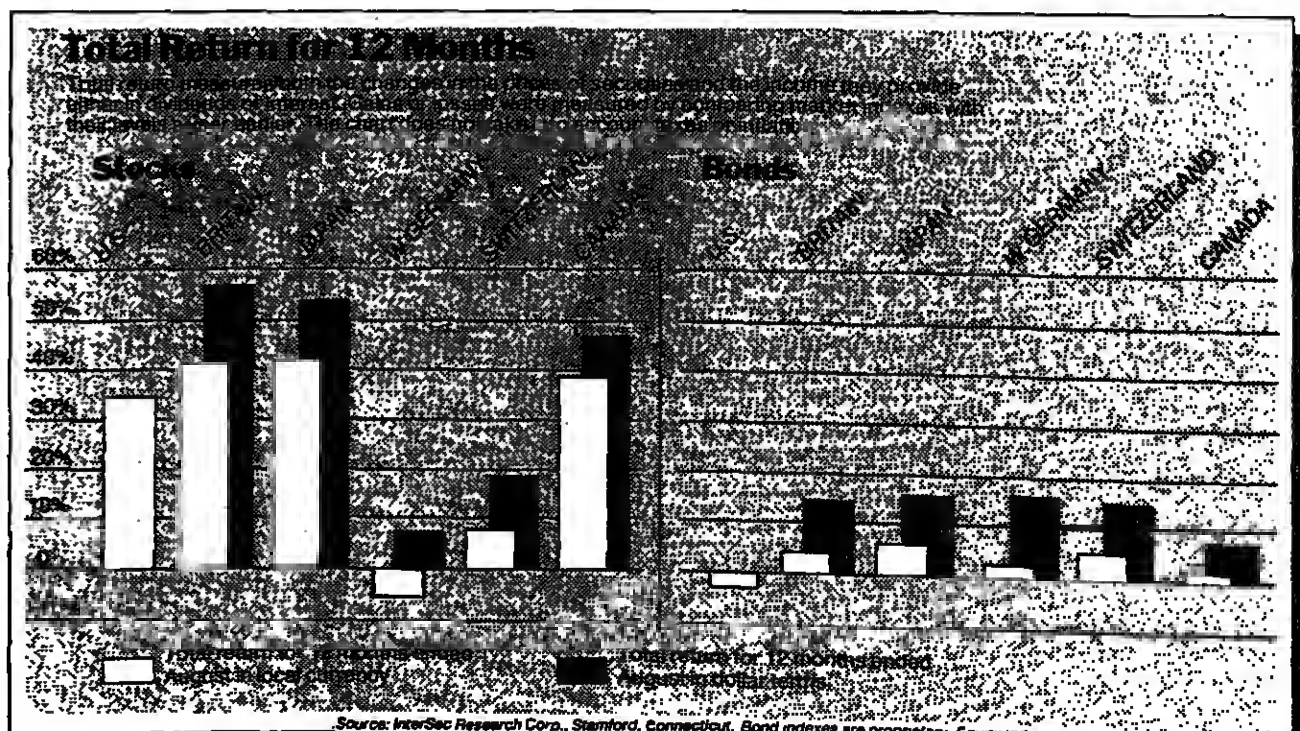
| | Percent Gain | Price Sept. 30 | | Percent Loss | Price Sept. 30 |
|---|---|---|---|---|---|
| E&B Marine Inc. | 76 | 11.00 | Safecard Services | 45 | 11.88 |
| Tower Federal Savings | 63 | 22.00 | Seagate Technology | 39 | 18.38 |
| Medchem Products | 54 | 18.50 | Allegheny Beverage | 33 | 10.13 |
| General Computer | 48 | 12.75 | Charming Shoppes | 31 | 23.75 |
| Strategic Planning | 45 | 28.25 | Peul Harris Stores | 28 | 13.75 |

**London Stock Exchange:**
Compiled by Morgan Stanley Capital International. Prices in pence

| | Percent Gain | Price Sept. 30 | | Percent Loss | Price Sept. 30 |
|---|---|---|---|---|---|
| Equity & Law | 38 | 455 | Saatchi & Saetchi | 13 | 568 |
| Pearson | 26 | 946 | Dee Corp. | 10 | 208 |
| Pearl Group | 25 | 472 | Freemans | 8 | 236 |
| Rothmens Int'l | 24 | 459 | Bowthorpe | 8 | 229 |
| Sun Alliance | 21 | 1,188 | Int'l Thomson | 7 | 685 |
| Abbey Lifa | 20 | 336 | Oxford Instruments | 7 | 301 |
| Ceble & Wireless | 19 | 504 | Bunzl | 6 | 244 |
| English China Clays | 18 | 566 | Unigate | 6 | 366 |
| Tricentrol | 18 | 139 | Telephone Rentals | 6 | 275 |
| United Newspapers | 18 | 647 | British Printing | 5 | 363 |

**Tokyo Stock Exchange:**
Compiled by Morgan Stanley Capital International. Prices in yen

| | Percent Gain | Price Sept. 30 | | Percent Loss | Price Sept. 30 |
|---|---|---|---|---|---|
| Matsushita Commun. | 35 | 4,670 | Chugai Pharm. | 20 | 1,890 |
| Nitsuko | 34 | 1,950 | Toyo Jozo | 19 | 1,490 |
| Kokusai Electric | 32 | 3,530 | Kureha Chemieal | 18 | 1,380 |
| Hitachi Ltd. | 30 | 1,540 | Sanrio | 17 | 5,070 |
| NEC | 29 | 2,430 | Nissin Food | 16 | 4,250 |
| Yamaha Motor | 29 | 1,110 | Descente | 15 | 560 |
| Sumitomo Metal | 29 | 336 | Sapporo Breweries | 14 | 1,720 |
| Hirose Electric | 28 | 5,590 | Industrial Bank Japan | 14 | 3,450 |
| Nichicon Capacitor | 27 | 1,620 | Daiwa House | 14 | 2,000 |
| Toshiba Corp. | 23 | 817 | Sankyo | 13 | 1,740 |




Source: InterSec Research Corp., Stamford, Connecticut. Bond indexes are proprietary. Equity indexes are from Capital International.

# Fees: A Step Toward Fuller Disclosure

By Joan Westreich

*New York*

BY NEXT spring, if the staff of the Securities and Exchange Commission has its way, investors in U.S. mutual funds should be able to pick up a fund's prospectus and better understand how sales charges, redemption costs and other expenses can affect a fund's return.

Although current regulations require that all fees be spelled out in a fund's prospectus, they typically are scattered throughout the document, making the task of computing costs and comparing the advantages of various funds a complicated matter.

Under the SEC's proposal, all fees would be grouped in a single table that would provide potential investors with a graphic breakdown. This would include recurring and nonrecurring expenses, as well as a hypothetical example, illustrating how the charges affect performance over a period of time.

Any sales fees, or "loads" as they are known in the industry, levied on reinvested dividends would not be listed, however. Instead, the SEC's proposal requires that those funds engaged in "double dipping" must explain in a narrative following the table that these charges are not included.

Until recent years, such a table would have been unnecessary. Mutual funds were either load funds that were purchased through brokers and carried an 8.5 percent sales charge or no-load funds that were sold directly by fund management companies that charged no commissions.

Today, the distinction is blurred. Some funds billing themselves as no-load funds actually charge low loads of 2 percent to 3 percent. Others charge sliding scale, back-end loads, or redemption fees when fund shares are sold.

A particularly irritating charge to investors has been the so-called 12b-1 fee, which has grown in popularity. This allows fund management companies to charge up to 1.25 percent of a fund's assets to cover marketing and advertising costs.

Theoretically, shareholders could benefit from certain marketing expenditures. A small fund, for instance, could grow and become more diversified as a result of a marketing campaign. But increasingly, critics of the mutual fund industry view 12b-1 simply as an excuse for the fund companies to fill their coffers at the expense of shareholders.

Tom Harman, chief of the SEC's Office of Disclosure and Adviser Regulation, says 12b-1 was "one of the driving forces behind the fee table; it was the fee that broke the camel's back."

It is also one of the reasons that the fund industry has dropped its objections to the fee table, a concept that dates to 1984. Mr. Harman notes that "disclosure is much more palatable than the abolition of the rule."

It remains to be seen whether the proposal will be adopted in its entirety. After the period for public comment expires on Oct. 18, SEC staff members will rework the proposal and send it to the regulatory agency's commissioners for approval. Officials are hoping to see fee tables appearing in prospectuses by next spring. □

**CLOSED-END**

# A Hard Look at New-Issue Boom

## Here are some reasons to pass up newcomers.

By Cynthia Catterson

*New York*

AFTER LAST YEAR'S record number of new closed-end fund issues, observers wondered how many more the market could absorb. The skepticism was understandable. By the end of 1986, 28 new funds had gone public, representing some $5 billion in assets.

In retrospect, such uncertainty was unwarranted. So far this year, 22 new funds have come to market, surpassing the amount raised last year by $2 billion. And with underwriters planning to introduce about 10 other funds before the end of the year, it seems certain that 1987 will break the record for the number of new issues as well.

Of course, the new-issue boom reflects investor demand. Closed-end funds offer investors the diversified portfolio and professional management services of a conventional mutual fund. The big difference is that closed-end funds issue a fixed number of shares whose price fluctuates on a stock exchange just like any equity issue. As a result, shares typically sell at a premium or discount to the fund's net assets.

But the record number of new offerings can also be explained in terms of underwriting fees. "Funds in general have become hot investment products for individual investors," says Sheldon Jacobs, editor of The No-Load Fund Investor, a newsletter. "But salesmen are quite eager to sell the closed-end funds because the underwriting fees are so good."

As an example, Mr. Jacobs points to last year's decision by the well-known investment adviser, Mario Gabelli, to launch two similar funds. One was a conventional, no-load mutual fund. The other was a closed-end fund, aggressively promoted by brokers.

The no-load Gabelli Asset Fund raised $40 million in assets in the first few months. The closed-end Gabelli Equity Trust, however, raised more than $445 million in the underwriting period alone. Says Mr. Jacobs, "That's what happens when you pay brokers 7 percent to sell a fund."

*Money manager Mario Gabelli raised $445 million in a closed-end offering.*

Unfortunately, many investors have found that their funds have not lived up to the hype that surrounded some of last year's new issues. Like a fine wine, closed-end funds generally improve with age, according to experts.

Though new issues typically trade at an average premium of about 6 percent, in most cases the shares will drop to an average 9 percent discount within the first six months of trading, according Thomas J. Herzfeld, a South Miami-based investment adviser who specializes in closed-end funds.

A good example is a fund launched last year by Martin Zweig, another respected investment manager. Shares in the Zweig Fund have recently been trading at around last year's high. But the fund's assets have grown, with the stock now selling at a 16 percent discount to the fund's underlying value.

Many investors, who bought into the fund last year at a premium, are clearly upset, analysts say. As a result, Mr. Zweig has adopted an unusual policy of paying a 10 percent cash dividend to appease shareholders.

With underwriting fees running so high, Mr. Herzfeld maintains that the first few months of a fund's life are spent paying off the commissions.

Adds Calvin Puckett, president of Simms Capital Management in New York, "Even if the underlying performance of the fund is good, the investor is going to lose because there is no active aftermarket selling of these funds. It's ridiculous to buy a new closed-end fund at its initial public offering."

Indeed, this year's new issues have not fared much better than last year's. If anything, Mr. Herzfeld says, the increased number of new funds this year has put downward pressure on premiums of existing funds, while widening discounts of others.

Single-country or regional equity funds, often specializing in Asian markets, such as the Malaysia Fund, have been among the more exotic funds offered by underwriters in 1987.

Earlier in the year, however, the most popular funds were those that specialized in convertibles and bonds, reflecting in large part declining interest rates since 1981. There were nine new convertible and bond funds, accounting for nearly $5 billion in assets. The biggest was the Nuveen Municipal Value Fund, which raised a record $1.4 billion in June.

THE UPTURN IN interest rates since April has taken its toll, however. And experts are cautious about the future for closed-end bond funds. "People have been getting excited by the high yields of the past 12 months," says Mr. Puckett, "but they are naive to anticipate and expect the same performance in the coming year."

Instead of buying new issues, Mr. Puckett suggests investors look at open-end mutual funds that offer greater liquidity and diversification than their closed-end counterparts. Another alternative, he says, is to look for older, closed-end funds that are trading at discounts.

This is especially true when it comes to bond funds, Mr. Herzfeld believes. "Investors don't realize they could get much higher yields if they bought the portfolio directly," he says. "If the funds were buying bonds with an average coupon of 10 percent, the investor would really get only 9 percent because he has to give up a year's interest in underwriting expenses."

Still, if investors feel compelled to invest in a fund, Mr. Herzfeld suggests more established bond funds such as Excelsior Income Shares, managed by UST Advisory Co., First Pennsylvania Fund's Vestaur Securities fund and Global Yield Fund, the first U.S. bond fund to invest globally. Global Yield is managed by Prudential-Bache.

Mr. Herzfeld also feels there is a good case to be made for some of the older convertible closed-end funds, if investors are seeking a good yield and some capital appreciation. Two funds that he likes, Lincoln National Convertible and Ellsworth Convertible, are selling at 18 percent and 16 percent discounts respectively.

Whether the boom in new closed-end fund issues will continue is a matter of conjecture. Mr. Puckett notes that underwriters have been including provisions to open-end the funds if discounts get too wide. Although the provisions are often vague, the trend represents a departure from recent attempts by underwriters to make it more difficult for shareholders to open-end funds. □

### Leading New Issues

| Fund | Net Assets in Millions (Most recent report) |
|---|---|
| [illegible] | [illegible] |
| Duff & Phelps Selected Utilities | $1,165 |
| [illegible] | [illegible] |
| MFS Government Markets Income | $782 |
| [illegible] | [illegible] |
| Global Government Plus | $480 |
| [illegible] | [illegible] |
| Colonial Municipal Income | $214 |
| [illegible] | [illegible] |
| TCW Convertible Securities | $200 |

Source: Thomas Herzfeld Advisors Inc.

ONSHORE

# The Growing German Appetite for Funds

## Income-seeking elders and well-off offspring both buy.

By Gail Schares

*Munich*

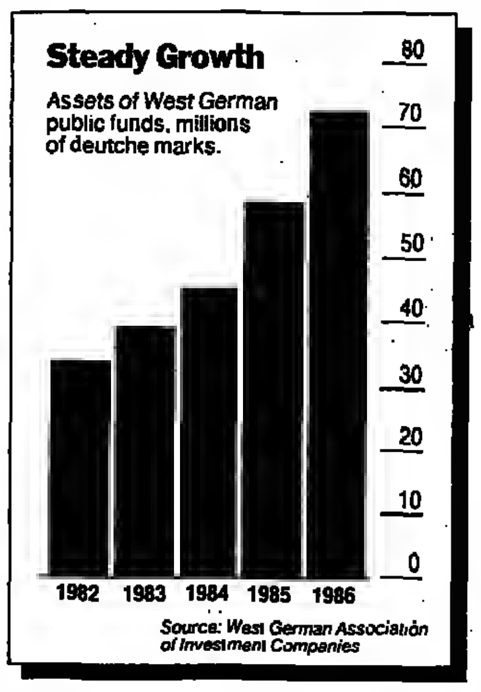
FUND MANAGERS in West Germany are still shaking their heads in disbelief. Overnight, German investors seem to have developed an uncharacteristically large appetite for funds.

"We've never seen growth like this before," says Hans-Dieter auf der Springe, head of ADIG, West Germany's second largest investment fund, and a 30-year industry veteran. ADIG's funds have swelled by 2.5 billion Deutsche marks in the first eight months of 1987.

This year "will be the best growth year in our history," says Wolfgang Deml, president of Frankfurt-based Uninn Investment Gesellschaft, West Germany's fourth-largest investment company and managers of the country's largest stock fund, Unifonds.

The surge of interest in funds does not signal any sudden shift away from the average German's conservative, risk-averse approach to investment, say industry observers. Buyers of fund shares are still thinking like long-term savers, with much of the money going into bond funds. And German fund holdings still lag behind the levels in Britain, France and Italy.

*Still*, even marginal changes in attitudes can have a big effect. During the first seven months of 1987, 9.8 billion marks flowed into the more than 160 investment funds, 30 percent over the same period in 1986, according to the Association of West German Investment Companies. That surge comes after 21-percent growth in 1986.



*Source: West German Association of Investment Companies*

Scrambling to satisfy the demand, money managers *have submitted* applications this year to create more than 200 funds for both private and institutional investors.

Demographic forces seem to be playing a role. With a shift toward an aging population in West Germany and growing concern about the financial soundness of the social security system, Germans are *moving assets from low-interest savings accounts*, which earn between 2.5 percent and 3.5 percent, to investment funds to build up supplemental retirement income.

"There's a gap in the ability of the pension system to provide an adequate living for an aging population," Mr. auf der Springe says. "Investment has become an essential element of long-term planning for each individual's retirement security."

Taking advantage of this trend, insurance companies have started aggressively marketing mutual funds — primarily bond funds — to customers when their life insurance policies mature. Insurance companies currently account for 20 percent of investment fund sales.

Understandably, fund managers are eager to set up partnerships with insurance companies. Insurance *giant Allianz, which established its own investment* company five years ago, boasts bond funds totaling over 1.1 billion marks.

West Germany's traditionally high savings rate bodes well for the fund industry. Based on the nation's savings rate, which stands at about 14 percent, West Germans are expected to put aside between 160 billion marks and 170 billion marks in 1987.

More important, the percentage of savings flowing into investment funds is on the rise. In 1986, 7.8 percent of private savings flowed into investment funds, up from 5.3 percent in 1985, according to the investment company association.

Finally, the investment industry is also benefiting from a new generation of prosperous and investment-conscious West Germans. "There is an incredible level of liquidity here," says Mr. Deml. "This is the first generation since the end of the war that has inherited any wealth."

Unlike many other European countries, West Germany has passed no laws granting tax benefits to encourage private investment. West German funds, however, can buy and sell shares without paying the stock market turnover tax of 0.5 percent, which investors would pay if they bought and sold the stock themselves. Sales charges for public investment funds in West Germany range from 30 marks to 150 marks, *while the management fees average 5 percent.*

Bond funds represent about two-thirds of the money in all funds. "The risk is small and the returns (5-7 percent) are still good" by German standards, explains Ruediger Paesler, spokesman for the investment companies association.

Of the 10 largest funds in West Germany, five are international bond funds, three are domestic bond funds and two are funds that invest in real estate. International bond funds are currently more popular than domestic funds, due to their higher returns.

Stock funds, *meanwhile*, have shown a small positive influx of funds in 1987 after shrinking in 1986. Nearly 550 million marks flowed out of equity funds in 1986 as investors cashed in on gains from the bull market of 1985 and early 1986. Equity funds totaled 13.7 billion at the end of July.

"There's not much going on in the German stock market at the moment to encourage investment," Mr. Paesler says. Domestic equity funds showed returns ranging from 7.4 percent to 22.5 percent in 1986, while some international stock funds showed spectacular annual growth of 40 percent to 50 percent in 1986.

WHEN THEIR FUND shares soar, German investors have tended to take the money and run. "The funny thing is, when a fund has a good performance, it shrinks because everyone cashes out," notes Mr. Paesler.

Fund *officials* still despair over such conservatism. "People here view stock funds as speculative investing," says Michael Kindsvater, marketing director at Frankfurt-based DEKA, Deka Deutsche Kapitalanlagegesellschaft. "They look only at the risk and they don't see the opportunity."

With corporate profits expected to strengthen in *1988, however*, stock funds may become more interesting to investors in the months ahead. Of the specialized stock funds, technology, energy and raw materials funds have become increasingly popular, particularly with the better-informed investors, says Ernst Bracker, head of DWS, Deutsche Gesellschaft für Wertpapiersparen.

DWS's raw materials fund posted a hefty gain of 48.9 percent during the 12 months ending June 31. DWS's energy fund showed a healthy increase of 21.1 percent.

"I'm confident stock funds will become more popular," ADIG's Mr. auf der Springe said. "You can see the investment thinking changing all over Europe." □



# Proposed Rule Changes Irk U.K. Fund Industry

By Marybeth Nibley

*London*

THE UNIT TRUST business in Britain is about to get a new watchdog after about five decades of being looked after by the Department of Trade and Industry. Understandably, the industry, in the midst of an unprecedented boom, is a bit nervous about what the incoming regulators have in store.

*The Securities and Investment* Board (SIB), which will take over responsibility for unit trusts in April, has already caused a stir with some draft regulations issued last month. While the public may regard some of the proposed rules as covering arcane matters, they would result in substantial changes in the way unit trusts are managed, advertised, bought and sold.

Among the proposed changes that would have the most impact on investors is a switch in the way unit trust shares are priced. Currently, unit trust shares are priced on what is called a historic basis. The net asset value of the shares at the end of the previous day is used to fix the price of a transaction.

## The rules would result in substantial changes in the way unit trusts are run.

The SIB proposals would put pricing on a forward basis, as is the case for mutual funds in the United States. Forward pricing means the price would be determined at the next calculation after the order was placed rather than the previous one.

The rationale for forward pricing is to eliminate the opportunity for managers and speculators who closely follow the markets to profit at the expense of unit holders. Under the present system, in theory at least, someone who knows the market has risen during the day can benefit by buying units before their price reflects the change in the value of the underlying securities.

The drawback to forward pricing is that investors will not know an exact price when they place orders. But John Fairburn, deputy chairman of M&G fund group, says that is not a very serious burden. He estimates that more than half his firm's customers buy units without knowing precise prices. They have a rough guide to prices from newspaper listings when they submit applications by mail, and they find out the price at which their order was transacted after applications have been processed.

But Mr. Fairburn finds the SIB's regulations that affect the "box" more worrisome.

The box is a pool of unit trust shares that managers maintain. By running a minor clearing system, *managers have an inventory of* units on hand to satisfy customer demand. Any profits or losses on the operation of managing this pool of shares accrue to the manager. For instance, if a manager buys back units from a customer and later resells them at a higher price, the manager pockets the difference.

Management firms argue that there is nothing inherently wrong with making such profits. And, they say, by keeping a stock of units, a manager insulates holders from the impact of sales and redemptions.

Mr. Fairburn called the box "an essential buffer," but he adds, "The rules of box management should be tightened up."

On box management, the SIB would prohibit managers from selling units short. This means managers who expect a wave of investors cashing in their shares cannot sell units before they have been created by the trustees.

By selling these units before trustees have created them, the managers are able to raise the cash to pay off unitholders without resorting to the sale of the funds' securities holdings. Under the U.K. definition of unit trusts, only trustees can create or liquidate units.

The SIB's plan would not ban managers from building up holdings of units in anticipation of a rise in their value. In its draft, the board says prohibiting a manager from acting as a principal and trading on his own account "would represent a fundamental change in the method of operating unit trusts, which has been the usual practice for decades."

Robin Dix, an SIB spokesman, notes that "members of the unsophisticated investing public would be surprised to learn that in addition to a fee, a manager is making a profit on the way he deals with the units." It has been estimated that as much as one-third of a manager's profit comes from dealings in his own account.

The SIB would further require managers to disclose how they set their prices for units. Formulas already exist to regulate the offer price, the maximum level at which the fund is selling units, and the bid price, the minimum buying prices.

At times when units are most in demand by investors, the price manager's quote will be closer to the maximum offer price. If a majority of customers decide to sell units, the price basis will shift toward the minimum bid price.

So investors can tell what conditions are in effect, the draft rules suggest that prices listed in newspapers should be designated as offer-based, bid-based and an intermediate price between the two.

Some managers said this requirement is unnecessary since the newspaper listings will reflect past prices, not the ones at which they will be making deals if the forward pricing method is adopted.

"Since the only publication of unit trust prices will be on a historical basis — one or two days later — we fail to understand the logic of indicating whther such prices are on a bid, offer, or intermediate basis," Bill Stuttaford, chairman of the Unit Trust Association, wrote in a news release. "The information will effectively be useless to the investor, since it will give no indication as to the basis of the forward price at which he would have to buy or sell."

Another proposal would require that the initial sales charge on units be shown separately rather than included in the overall price. "This would bring units more into line with equities and also lead to greater transparency of charges," the SIB report explains.

The draft also calls for managers to stop rounding unit prices in a way that the board says creates a hidden charge. Under the regulations, prices would be rounded up or down to five significant figures and not by 1 percent, or 1.25 pence per unit, whichever is smaller.

SIB has given the industry until Nov. 2 to respond, a period that fund-management executives *complain is insufficient.* □

Herald INTERNATIONAL Tribune
BUSINESS / FINANCE





**EUROBONDS**

# Frenzy in Frankfurt Ended Markets' Week That Wasn't

By CARL GEWIRTZ
*International Herald Tribune*

PARIS — A week that bond markets around the world would rather forget finished with a bang in Frankfurt. West German financial markets erupted in turmoil Friday following reports that the Bonn government plans to introduce a 10 percent withholding tax on interest income.

Intensifying the Frankfurt frenzy was the absence of technical detail clarifying what instruments are to be taxed or precisely when.

In one stroke, the government outraged investors by telegraphing its intentions to assault their pocketbooks and frightened them by failing to spell out how it would do it. Until those details are known the markets are likely to remain agitated.

**Bonn's planned withholding tax outraged investors, and the lack of detail frightened them.**

Is the proposal, for example, aimed at taxing transactions now exempt? Or is the object to stop cheating by taxing the source of income rather than relying on taxpayers' honesty to report it?

Will the measure provoke a capital outflow as investors rush to find nontaxable outlets abroad? Will the government stick to its plan if markets remain roiled and investors go on strike?

A big question is whether the tax would be applied to Deutsche mark Eurobonds — securities issued by, and largely sold to, nonresidents. The hallmark of the international bond market is that paper is issued free of taxes, leaving investors the choice of hiding the income from their tax authorities or reporting it.

Most experts are of the opinion that DM Eurobonds would be excluded from the new tax. "I can't imagine that Eurobonds issued by *non*-Germans, held by non-Germans could be taxed. It's hardly feasible," one West German official said.

However, unless this point is clarified, the 300 million DM issue scheduled for this week from China — the government's first foreign borrowing in its own name — may be held back.

In contrast to the view on DM Eurobonds, bankers do expect that Eurobonds issued by Germans — for example, Australian dollar bonds issued by a domestic entity — would become subject to the tax. Most of these bonds in fact were issued by foreign units of German banks, and these presumably would escape the withholding tax. But where the issuer was the domestic parent company, the annual interest payment could be taxable.

ALL EUROBONDS contain clauses permitting the issuer to redeem the paper immediately if interest payments ever become subject to a withholding tax. But that remedy could be a more bitter pill than having to pay the tax.

That's because few issuers of Australian dollar bonds had need of that currency. In most cases the proceeds were swapped into another money, producing a lower rate of interest than could otherwise have been achieved — say, floating-rate dollars at a rate significantly below the London interbank bid rate. Those low-cost funds were then used by the bank to make a loan or an investment at a margin over Libor.

By having to call the Australian dollar bond, the bank would have to unwind the swap — with luck at no cost if the contract had been carefully worded. But the bank might not be able to sell its loan or investment whose profitability was linked to the bank's own below-Libid cost of funds.

For investors holding such bonds, the bulk of which are believed to be denominated in Australian dollars, premature redemption at par value would be sour news. Interest rates in Australia have fallen sharply, the currency has appreciated and most of the bonds are trading at substantial premiums over their face value.

Foreign investors holding domestic German securities will surely be hit by the new withholding tax. Up to 1984, Germany imposed a 25 percent withholding tax on interest payments paid to foreign holders of domestic securities. That tax kept most foreign investors out of the domestic market and was repealed as a wave of tax liberalization spread out from the United States.

The new tax is expected to be applied on all domestic securities, regardless of who owns them. However, foreign investors domiciled in countries that have a treaty with West Germany eliminating the risk of double taxation would be able to reclaim the tax payment.

Bankers believe that even *schuldscheindarlehen*, promissory notes that up to 1984 were free of tax, would become subject to the new levy.

The 1984 tax changes had the effect of driving foreign investors into buying domestic German securities rather than Eurobonds because the secondary market is much more liquid. But last week that liquidity evaporated as both foreign and domestic holders tried to sell, creating a one-way price movement.

The only buyer of government paper was the Bundesbank,

See EUROBONDS, Page 17

# Ford Sets Another Purchase

## *$512 Million For U.S. Leasing*

*Reuters*

NEW YORK — Ford Motor Co., loaded with cash from swelling earnings, has announced that it will acquire United States Leasing International in a transaction valued at $512 million.

Under the agreement, Ford will buy USL's 7.38 million outstanding shares of common stock for $68 each, the companies said Saturday. The tender offer begins Oct. 19.

USL's stock rose $3.75 a share Friday on the New York Stock Exchange to close at $52.75.

Stock options included in the merger raise its total value by about $10 million, to $512 million, a USL spokesman said.

On Oct. 2, Ford agreed to contribute more than $1.2 billion toward a $1.3 billion buyout of Hertz Corp., the car rental company, from Allegis Corp. Last Thursday, Ford's board increased the quarterly dividend 25 cents, to $1 a share.

Ford, which has posted profit of nearly $3 billion for the first half of 1987, was estimated in September to have more than $9 billion in cash. At that time, it was reported that Ford would soon submit a bid for the troubled Financial Corp. of America.

USL leases business equipment, automotive fleets, electronic gear, aircraft and railroad equipment. It has assets of $1.5 billion.

The USL transaction "is part of Ford's plan to expand its financial services businesses," said James W. Ford, chairman of Ford's finance and insurance subsidiaries.

The financial services units include Ford Motor Credit Co. and First Nationwide Financial Corp., with combined assets of $61 billion.

# *GM Trying to Tame Its 'Cannibals'*

## Hopes New Cars Won't Eat Into Existing Sales

By John Holusha
*New York Times Service*

DETROIT — Just about the last thing General Motors Corp. needs these days is more "cannibals."

But since they went on sale in showrooms in March, GM's new Corsica and Beretta compacts appear to have been "eating" the sales of other GM models.

Now, some analysts are predicting that a new line of midsize GM cars may also inflict more harm on existing GM models than on the competition. That would be a major blow to GM, which invested $8 billion in what is known as the GM-10 line to try to reverse its slide in market share.

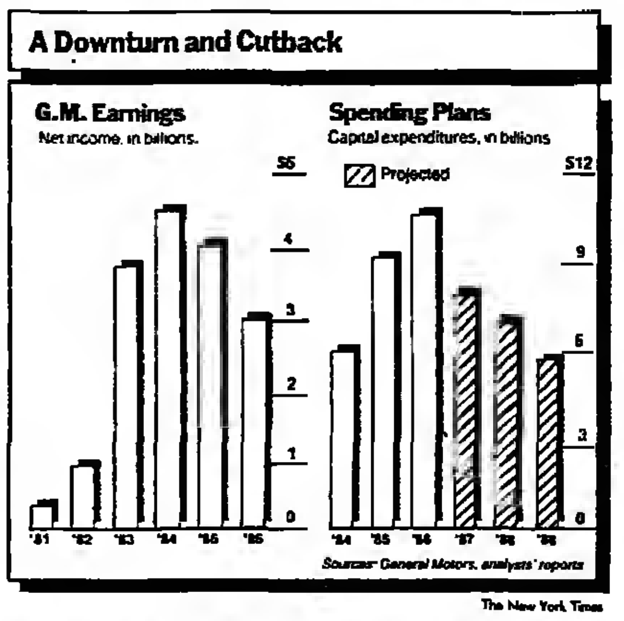
No U.S. auto company has had a bigger cannibalization problem than GM. For most of the 1980s, its divisions have been inadvertently fighting each other as customers struggle to tell the difference between a Buick, a Pontiac and a Chevrolet.

Now the problem appears to be that while consumers find GM's new models more appealing than the maker's older cars, they do not necessarily like them more than those of GM's rivals.

One of the new models, a two-door coupe designated the Buick Regal, went on sale at the beginning of the month. The Pontiac Grand Prix and Oldsmobile Cutlass Supreme versions will follow next spring. Chevrolet, four-door and station-wagon models are scheduled to be introduced in succeeding years.

General Motors badly needs these new cars to succeed. While GM is still the market leader, during the 1987 model year, its share of the U.S. car market dropped to 36.9 percent, from 42.1 percent in 1986, despite almost continuous use of sales incentives. In the early 1980s, its share was nearly 45 percent.

**A Downturn and Cutback**




Sources: General Motors, analysts' reports
The New York Times

The company clearly has high hopes for the GM-10s. Four assembly plants have been designated to build them, which means that GM thinks it can sell about one million a year when the line reaches full production around 1991.

Early reviews of the cars, which have front-wheel drive and rounded, aerodynamic styling reminiscent of Ford Motor Co.'s wildly successful Taurus line, have been favorable. But so were those for GM's Chevrolet Corsica and Beretta compacts earlier this year.

Chevrolet officials boldly predicted in March that the Corsica and the Beretta would reclaim 2 percentage points of market share for the corporation by taking sales from such models as the Ford Tempo and Mustang. After a slow start, the cars did do well, capturing 3.5 percent of the total car market in the United States in September.

But the data suggest that the Corsica and Beretta sales have largely come not out of the hide of GM's competitors but of other Chevrolet models, namely the Cavalier and Celebrity, the models positioned on either side of the new cars.

Chevrolet sold 179,057 Corsicas and Berettas during the model year that ended Sept. 30, but the combined sales of the Cavalier and Celebrity dropped by 155,159. (While the Corsica and Beretta only became available to the public in March, private fleets, such as car rental agencies, were able to buy them for most of the model year.)

Far from increasing, Chevrolet's market share declined about a percentage point, to 14.5 percent of the total car market. Meanwhile, sales of the Tempo and Mustang were each down only 7 percent.

"GM's Corsica and Beretta are doing well, but they have not contributed to GM's share," said Maryann Keller, an analyst with Furman Selz Mager Dietz & Birney. "It appears that the models are cannibalizing sales from the Cavalier, which dropped 18 percent, and the Celebrity, which

See GM, Page 17

# Bonn Suggests 1989 Debut for Investment Tax

*Reuters*

BONN — Finance Minister Gerhard Stoltenberg confirmed on Sunday that the West German government would levy a 10 percent withholding tax on most investment earnings. He said it would come into effect as early as 1989.

Mr. Stoltenberg, officially announcing a move that was disclosed Thursday by sources in the governing coalition, said the levy would close a loophole that costs the government 4.5 billion Deutsche marks ($2.5 billion) a year.

West German share and bond prices plunged Friday after the sources said the tax was to be adopted. Bankers asserted that it would encourage capital flight and damage the country's claim to be a leading financial center.

The withholding tax is one of several measures planned by the government of Chancellor Helmut Kohl to finance 39.2 billion DM in reductions in personal and company taxes by 1990.

The government has cited the tax changes to rebut critics abroad, particularly in the United States, who say Bonn is not doing enough to stimulate economic growth to raise imports and correct global trade imbalances.

On Sunday, Mr. Stoltenberg acknowledged that the Bonn government was "of course concerned about foreign investors." But he said that even after the introduction of the 10 percent investment tax, "West Germany will remain an attractive investment center by international comparison."

The finance minister noted that Switzerland, for example, has a 35 percent withholding tax on investment earnings.

Still, tax experts said many foreign investors fail to declare their West German holdings and the tax will encourage them to take their money to countries such as Luxembourg or Denmark, where investment taxes are negligible.

On Saturday, leaders of the three parties in Mr. Kohl's center-right coalition government met for four hours to finalize ways of paying for the tax changes. The parties are Mr. Kohl's Christian Democratic Union, the Christian Social Union and the Free Democratic Party.

To finance the tax reductions, the government is planning to reduce subsidies and certain tax concessions by 19 billion DM.

The rest will come particularly from the sale of stakes in state-run enterprises and a slight increase in the federal budget deficit. Indirect taxes on tobacco and gasoline may also be raised.

## *Peru Takes Over Private Banks*

*Agence France-Presse*

LIMA — President Alan García Pérez signed into law on Sunday a bill nationalizing Peru's private banks and insurance companies.

The bill, bitterly opposed by business leaders, was proposed July 28 and passed by the legislature two weeks ago. It was published Sunday in the official daily El Peruano.

The state takes over the 10 banks, 17 insurance companies and six financial institutions on Monday. Branches of foreign-owned banks are exempted. Mr. García has argued that the bill will make credit available to Peru's lower classes.

# *The Gold Mine Napoléon Gave France's Brokers Is Opening Up to Foreigners*

By Steven Greenhouse
*New York Times Service*

PARIS — Some French stockbrokers call it "our Big Bang," others have dubbed it "*le petit bang*," and a few are even calling it "the long bang."

Whatever the name, everyone agrees that the deregulation of France's financial markets represents the biggest change for the Bourse since Napoléon awarded exchange seats to 71 *agents de change* — literally, exchange agents — while denying everyone else the right to trade stocks.

Under the pending legislation that will spark *the Big Bang à la française*, foreign and domestic banks, insurers and other companies will be able to buy into French brokerages at the start of next year and more exchange seats will be added in 1992, thus ending the brokers' cushy 180-year-old monopoly. America's giant stockbrokers, along with big French and foreign banks, are already jockeying for position.

"The whole face of the French financial market will change in the next two or three years," said Thierry Tuffier, managing director of Tuffier Ravier, one of France's largest brokerages. "All the changes mean that total market volume could double in two years."

Many of the brokers based on the narrow, 200-year-old streets surrounding the neoclassical Palais Brongniart, which houses the Bourse, are grumbling about seeing their monopoly disappear. But the government has decided that it is necessary to step on their toes if Paris is ever to become an international finance center.

Envious of the financial boom in New York and London, and conscious that other significant markets, including Toronto and Tokyo, are opening up, French officials grew frustrated that Paris remained a financial backwater. Brokerages are tiny by international standards, many still receive handwritten orders on scraps of paper, and until 1985 trading at the Bourse was limited to two hours a day. And although France's economy is bigger than Britain's, the capitalization of the Bourse is just one-third that of London, where the "Big Bang" a year ago introduced a much more competitive era.

"The monopoly of stockbrokers gave them a gold mine," said François Fournier, director of the recently opened Paris office of Shearson Lehman Brothers, which has looked into buying a French brokerage. "There was no incentive for them to innovate or increase capital, and that had to be stopped."

French authorities concluded that the way to bring Paris's financial markets into the 21st century — or, many joke, at least into the 20th — was to create more financial instruments, allow new types of exchanges, encourage competition and invite in heavyweights from abroad. In the developing free-for-all, French brokers, although they lose their monopoly, will be given the right to manage portfolios — now handled by banks and specialist firms — and to do investment banking. Commercial banks will be plunging into stock trading.

"Relative to where they both started, it is a bigger bang in France than in Great Britain," said J. Paul Horne, a managing director with Smith Barney, Harris Upham in Paris. "Britain was far less regulated than France was."

In the last few years, France has strained to make up for lost time.

Thanks in part to technological changes and to a wave of privatizations carried out by the conservative government of Prime Minister Jacques Chirac, turnover on the Paris Bourse grew from $11 billion in 1982 to $59 billion last year.

France's first financial futures exchange made its debut last year, and has already outgrown its five-year-old rival in London. Last month, France opened its first stock options exchange.

Paris's Second Market, France's version of the U.S. over-the-counter market, opened in 1983, and its volume tripled last year.

"There was so much new going on already that the new reforms are making it a little hard for us to digest everything at once," said Jean-Pierre Pinatton, president of his own brokerage house.

The proposed changes are expected to sail through France's legislature this fall, and French brokerages are putting themselves on the auction block in the hope of wooing bids from banks and investment houses that do not want to wait until the stampede in 1992 to enter the Paris scene.

Last Tuesday, Crédit Lyonnais, France's second-largest commercial bank, and a few partners said they had agreed to buy, as soon as the law allows, 60 percent of France's third-largest brokerage, Cholet-Dupont. Last Monday, Compagnie du Midi, a French insurance company, said it would gradually buy 100 percent of Meeschaert-Rousselle, France's largest securities firm in revenue terms, for $100 million.

Meeschaert-Rousselle had revenue of just $50 million last year and capital of about $15 million. Like Meeschaert, many French brokerages are trying to peddle all or part of themselves to larger entities.

Under the proposed legislation, outside investors, including banks and foreign in-

See BOURSE, Page 20

# Mexican Pledges a 'New Economy'

## *But Next President Faces Tests on Inflation, Austerity*

By Larry Rohter
*New York Times Service*

MEXICO CITY — Last Monday, one day after Mexico's ruling party named Carlos Salinas de Gortari as its candidate in next year's presidential election, the stock market here rose 7.5 percent in the first 90 minutes of trading.

Twice during the day the government suspended trading briefly to prevent what it called a "disorderly" surge by the market.

Not every sector of the Mexican business community has reacted with such *euphoria* to the selection of Mr. Salinas as the candidate of the Institutional Revolutionary Party, which has won every presidential election since it came to power in 1929.

But he has been warmly welcomed in business circles as a man thought to be capable of pulling Mexico out of its most severe economic crisis in 50 years.

As minister of budget and planning since 1982, Mr. Salinas, 39, a Harvard-educated economist, has been the point man of the economic austerity program ordered by President Miguel de la Madrid.

Business and banking leaders view him as likely to continue the sweeping economic restructuring begun by the current administration.

"Those of us who know him well know that he is a man who believes in private enterprise and that he is going to help the country move ahead," Vicente Bortoni, president of the Confederation of Industrial Chambers, said at a news conference last week.

In his acceptance speech on Oct. 4, Mr. Salinas vowed to devote his energies to the construction of what he called a "new Mexican economy."

His objective, he said, is a more competitive economy, "stronger in relation to the outside world, with a greater capacity for savings, investment and the generation of jobs," and to foster "an enterprising and hardy private sector."

How Mr. Salinas will achieve those goals is unclear. But he and close associates such as Pedro Aspe Armella, who was named budget and planning minister last week when Mr. Salinas resigned to begin his campaign, face a number of tests that are likely to make their general economic approach clear even before Mr. Salinas's likely swearing-in on Dec. 1, 1988.

Business groups agree that the top priority should be lowering the rate of inflation, which has reached more than 133 percent, the highest in Mexican history.

But Mr. Salinas will also be under pressure from elements within the ruling party to increase public spending and take advantage of reserves that have zoomed to $15 billion, more than double their level a year ago.

The labor sector of the party, which has clashed frequently with Mr. Salinas and wields considerable power, has already demanded an easing of austerity measures as the price for its support.

"Any concessions on this point could jeopardize his overall program," said one foreign economist here.

Close attention will also be paid to the policy Mr. Salinas adopts on exchange rates. Mexican exports have jumped dramatically in the last two years, thanks in large part to steady devaluations of the peso.

In recent months, however, the rate of devaluation has fallen behind inflation.

"Their export competitiveness is diminishing," one diplomat here said. "With the prime rate up in the United States and capital inflow having all but stopped, several things are combining to work against Salinas right now."

# *Hutton Likely to Be Indicted In Money-Laundering Case*

*Compiled by Our Staff From Dispatches*

WASHINGTON — The Justice Department will "most likely" seek indictment of the New York brokerage E.F. Hutton & Co. for laundering money for organized crime, according to law-enforcement officials.

They said that lawyers for E.F. Hutton had met with Justice Department officials but failed to dissuade the department from prosecuting. The officials said no final decision had been made. The Justice Department had no official comment.

Robert M. Sharkey, a spokesman for E.F. Hutton, confirmed that representatives of the company met with Justice Department officials on Thursday. He said discussions were continuing.

Federal prosecutors in Rhode Island asked the Justice Department to seek an indictment on grounds that brokers in the company's Providence office had converted many bundles of less than $10,000 in cash into bonds made out to be payable to the bearer, sources familiar with the case said.

Those bearer bonds are the equivalent of cash since they can be sold freely. Transactions under $10,000 need not be disclosed to the U.S. government.

Lawyers for E.F. Hutton were said to have told the Justice Depart-

See HUTTON, Page 17

# Currency Rates

**Cross Rates** — *Oct. 9*

| | $ | £ | D.M. | F.F. | IT.L. | Gldr. | B.F. | S.F. | Yen |
|---|---|---|---|---|---|---|---|---|---|
| Amsterdam | 2.0405 | 3.368 | 1.1253 | 0.3378 | 0.156 * | — | 5.415 * | 1.3534 | 1.419 * |
| Brussels(a) | 37.489 | 62.2075 | 20.785 | 6.2395 | 2.8805 * | 18.472 | — | 25.001 | 0.2623 |
| Frankfurt | 1.8121 | 2.993 | — | 0.3002 | 0.1386 * | 0.8887 | 4.811 * | 1.2028 | 1.2615 * |
| London (b) | 1.6515 | — | 2.996 | 9.9838 | 2,162.00 | 3.369 | 62.20 | 2.4905 | 237.425 |
| Milan | 1,308.40 | 2,160.45 | 721.67 | 216.63 | — | 641.25 | 34.717 | 868.25 | 9.101 |
| New York(c) | — | 1.654 b | 1.8105 | 6.031 | 1,306.50 | 2.0375 | 37.42 | 1.5005 | 143.65 |
| Paris | 6.041 | 9.9785 | 3.3309 | — | 0.4617 * | 2.96 | 0.1683 | 4.0077 | 4.2009 * |
| Tokyo | 144.18 | 237.59 | 79.42 | 23.84 | 0.1102 | 70.63 | 3.8253 | 95.43 | — |
| Zurich | 1.5095 | 2.4986 | 0.8311 | 0.2496 | 0.1154 * | 0.7385 | 4.0053 * | — | 1.0484 * |
| 1 ECU | 1.1452 | 0.6937 | 2.0774 | 6.9188 | 1,499.30 | 2.3378 | 43.183 | 1.727 | 164.681 |
| 1 SDR | 1.291 | 0.7821 | 2.3394 | 7.8329 | 1,691.48 | 2.6342 | 48.655 | 1.9455 | 186.892 |

*Closings in London, Tokyo and Zurich, fixings in other centers. New York rates at 4 P.M.*
*a: Commercial franc; b: To buy one pound; c: To buy one dollar; *: Units of 100; N.Q.: not quoted; N.A.: not available.*

**Other Dollar Values**

| Currency | Per $ | Currency | Per $ | Currency | Per $ | Currency | Per $ |
|---|---|---|---|---|---|---|---|
| Argen. austral | 3.1225 | Fin. markka | 4.375 | Mex. peso | 1618.00 | S. Afr. rand | 2.061 |
| Austral. $ | 1.382 | Greek drac. | 139.90 | N. Zealand $ | 1.504 | Soviet ruble* | 0.6388 |
| Austr. schil. | 12.79 | Hong Kong $ | 7.8085 | Nig. naira* | 4.2108 | Span. peseta | 120.75 |
| Belg. fin. fr. | 37.94 | Indian rupee | 13.02 | Norw. krone | 6.6335 | Swed. krona | 6.3795 |
| Brazil cruz. | 51.89 | Indo. rupiah | 1650.50 | Phil. peso | 20.73 | Taiwan $ | 29.98 |
| Canadian $ | 1.308 | Irish £ | 0.6783 | Port. escudo | 144.00 | Thai baht* | 25.755 |
| Chinese yuan* | 3.7221 | Israeli shek. | 1.6041 | Saudi riyal* | 3.7503 | Turkish lira | 940.10 |
| Danish krone | 6.9715 | Kuwaiti dinar* | 0.2856 | Sing. $ | 2.097 | UAE dirham* | 3.673 |
| Egypt. pound | 2.2277 | Malay. ring.* | 2.538 | S. Kor. won | 805.9 | Venez. boliv. | 32.80 |

*New York rates unless marked * (local rate).*

**Forward Rates**

| Currency | 30-day | 60-day | 90-day | Currency | 30-day | 60-day | 90-day |
|---|---|---|---|---|---|---|---|
| Pound Sterling | 1.6458 | 1.6433 | 1.6427 | Canadian dollar | 1.3098 | 1.3118 | 1.314 |
| Japanese yen | 143.63 | 143.20 | 142.69 | Swiss franc | 1.5049 | 1.499 | 1.4947 |
| Deutsche mark | 1.8112 | 1.8054 | 1.7997 | | | | |

*Sources: Indosuez Bank (Brussels); Banca Commerciale Italiana (Milan); Banque Nationale de Paris (Paris); Bank of Tokyo (Tokyo); IMF (SDR); BAII (dinar, riyal, dirham); Gosbank (ruble). Other data from Reuters and AP.*

# Last Week's Markets

*All figures are as of close of trading Friday*

**Stock Indexes**

| | | | Ch'ge |
|---|---|---|---|
| **United States** | | | |
| DJ Indus. | 2,482.21 | 2,640.99 | —6.40 % |
| DJ Util. | 196.06 | 200.75 | —2.39 % |
| DJ Trans. | 1,036.88 | 1,064.41 | —2.66 % |
| S & P 100 | 303.15 | 321.64 | —6.10 % |
| S & P 500 | 311.07 | 328.07 | —5.47 % |
| S & P Ind | 361.36 | 383.28 | —6.06 % |
| NYSE Co | 174.64 | 183.43 | —5.03 % |
| **Britain** | | | |
| FTSE 100 | 2,366.50 | 2,382.20 | —0.66 % |
| FT 30 | 1,858.20 | 1,872.30 | —0.76 % |
| **Japan** | | | |
| Nikkei 225 | 26,338.77 | 25,862.45 | + 1.84 % |
| **West Germany** | | | |
| Commerzbk | 1,936.60 | 2,010.40 | —3.81 % |
| **Hong Kong** | | | |
| Hang Seng | 3,882.42 | 3,932.04 | —1.28 % |
| **World** | | | |
| MSCIP | 486.40 | 485.20 | + 0.25 % |

*World Index From Morgan Stanley Capital Int'l.*

**Money Rates**

| | Oct. 9 | Oct. 2 |
|---|---|---|
| **United States** | | |
| Discount rate | 6 | 6 |
| Federal funds rate | 7½ | 7⅝ |
| Prime rate | 9¼ | 8¾ |
| **Japan** | | |
| Discount | 2½ | 2½ |
| Call money | 3 5/16 | 3 9/16 |
| 3-month interbank | N.Q. | 3⅞ |
| **West Germany** | | |
| Lombard | 5 | 5 |
| Call money | 3.85 | 3.85 |
| 3-month interbank | 4.70 | 4.55 |
| **Britain** | | |
| Bank base rate | 10 | 10 |
| Call money | 9⅞ | 10 |
| 3-month interbank | 9⅞ | 9 27/32 |

**Gold**

| | Oct. 9 | Oct. 2 | Ch'ge |
|---|---|---|---|
| London p.m. fix.$ | 462.05 | 454.35 | + 1.70 % |

# Weekly International Bond Prices

*Provided by Credit Suisse First Boston Securities, London. Tel.: 01-623-1277. Prices may vary according to market conditions and other factors.* Oct. 8

## Dollar Straights

Issuer | Cpn | Mat | Price | Yld Mat | Spd Trsy

Australasia — Canada — France — Japan — Scandinavia — Supranational — United Kingdom — United States

[illegible]

## DM Straights

European — Non-European — Supranational

[illegible]

## Dollar Zero Coupons

[illegible]

## Western Europe (Other)

[illegible]

## DM Zero Coupons

[illegible]

## ECU Straights

[illegible]

## Yen Straights

[illegible]

| Issuer | Cpn | Mat | Price | Yld Mat | Cur Yld |
|---|---|---|---|---|---|
| World Bk | 7 | 94 | 103⅝ | 6.25 | 6.76 |
| World Bk | 5¾ | 94 | 95⅞ | 6.36 | 5.99 |
| World Bk | 6½ | 96 | 101 | 6.33 | 6.44 |

Listing above does not include floating rate notes or convertibles. Coupon in % and yields are expressed in per cent. For dollar-denominated issues, Spd/Trsy is differential between yield to maturity of bond and yield on U.S. Treasury issues with the same maturity, expressed in basis points. Pp: private placement. W/w: with warrants. X/w: ex warrants.

# Euromarts At a Glance

## Eurobond Yields

| | Oct. 18 | Sept.30 |
|---|---|---|
| U.S. $, int'l inst., 8 yrs & over | 10.64 | 10.11 |
| public issuers, 8 yrs & over | 10.29 | 10.38 |
| other issuers, 8 yrs & over | 10.25 | 10.10 |
| other issuers, 5 to 7 yrs | 10.11 | 9.73 |
| Pounds sterling, 5 to 7 yrs | 10.45 | 10.52 |
| French francs, less than 5 yrs | 10.19 | 10.17 |
| ECU, 8 yrs & over | 9.16 | 9.13 |
| 5 to 7 yrs | 8.94 | 8.99 |
| Can. $, 5 to 7 yrs | 11.27 | 11.23 |
| Aus. $, 5 to 7 yrs | 13.07 | 13.03 |
| N.Z. $, less than 5 yrs | 16.77 | 16.73 |
| Yen, 8 yrs & over | 6.31 | 6.28 |
| 5 to 7 yrs | 6.20 | 6.00 |

Source: Luxembourg Stock Exchange.

## Weekly Sales

Oct. 8

Primary Market

| | Cedel $ | Cedel Nons | Euroclear $ | Euroclear Nons |
|---|---|---|---|---|
| Straights | 29.30 | 255.10 | 469.90 | 960.70 |
| Convert. | 21.60 | — | 275.50 | — |
| FRNs | 29.70 | — | 73.10 | 471.70 |
| ECP | 901.80 | 99.30 | 4,921.00 | 234.10 |
| Total | 972.40 | 254.40 | 5,739.50 | 1,666.50 |

Secondary Market

| | Cedel $ | Cedel Nons | Euroclear $ | Euroclear Nons |
|---|---|---|---|---|
| Straights | 10,062.60 | 255.10 | 16,018.60 | 9,764.60 |
| Convert. | 445.80 | 428.50 | 1,856.30 | 655.40 |
| FRNs | 1,096.60 | 1,147.20 | 9,385.70 | 2,482.90 |
| ECP | 1,954.50 | 207.00 | 2,073.90 | 274.80 |
| Total | 14,459.30 | 2,097.80 | 29,334.50 | 13,177.90 |

Source: Euroclear, Cedel.

## Libor Rates

Oct. 9

| | 1-month | 3-month | 6-month |
|---|---|---|---|
| U.S. $ | 7 15/16 | 8 13/16 | 9 |
| Deutsche mark | 4⅞ | 5 | 8 1/16 |
| Pound sterling | — | n.a. | — |
| French franc | 7 13/16 | 8⅝ | 9⅛ |
| ECU | 7⅛ | 7 11/16 | 7⅞ |
| Yen | 6 3/16 | 5 | 5¼ |

Source: Morgan Guaranty, Lloyds Bank, Reuters.

# Treasury Bonds

Oct. 9

| Maturity | Bid | Ask | Close Yield | Wk-ago yield |
|---|---|---|---|---|
| 31.7.89 | 99 8/32 | 99 10/32 | 8.90 | 8.57 |
| 15.8.90 | 96 22/32 | 96 24/32 | 9.20 | 8.84 |
| 30.6.91 | 99 1/32 | 99 3/32 | 9.41 | 9.05 |
| 15.11.92 | 95 12/32 | 95 14/32 | 9.53 | 9.17 |
| 15.7.94 | 98 19/32 | 98 21/32 | 9.77 | 9.45 |
| 15.8.97 | 92 1/32 | 92 3/32 | 9.90 | 9.58 |
| 15.2.06 | 94 8/32 | 94 12/32 | 10.06 | 9.77 |
| 15.8.17 | 89 29/32 | 89 31/32 | 9.93 | 9.68 |

Source: Salomon Inc.

# Wall Street Review

## NYSE Most Actives

| | Vol. | High | Low | Last | Chg. |
|---|---|---|---|---|---|
| CentEn | 281126 | 18⅝ | 16⅝ | 17 | —¼ |
| Tenneco | 115248 | 62½ | 57½ | 59¾ | +2 |
| AT&T | 104980 | 34⅝ | 32⅝ | 32½ | —1⅝ |
| IBM | 98272 | 157¼ | 147 | 147⅝ | —7⅝ |
| GenEl s | 91851 | 62⅝ | 58¼ | 58¼ | —4⅝ |
| NtSemi | 90069 | 22¼ | 19⅝ | 19⅞ | —1¾ |
| Limited | 85864 | 35⅝ | 28⅝ | 28¾ | —7 |
| Exxon s | 85522 | 49⅞ | 46¾ | 48 | —1⅜ |
| FordM | 77615 | 100¾ | 92⅝ | 94⅝ | —5⅝ |
| GMot | 76544 | 82⅜ | 74 | 74½ | —8 |
| Chrys s | 76497 | 42⅝ | 36⅛ | 36⅞ | —5⅝ |
| Varity | 70378 | 3⅝ | 2⅞ | 3⅛ | +¼ |
| AetnLf | 65788 | 61¾ | 59¾ | 60⅝ | +⅜ |
| AExp s | 65301 | 37⅞ | 35 | 35 | —1¾ |
| Hanan s | 59365 | 15⅝ | 15 | 15⅜ | +¼ |
| UCarb | 58065 | 32¼ | 29½ | 29⅝ | —1 |
| Telex | 57596 | 71⅝ | 53⅝ | 70⅝ | +16⅝ |
| Unisys s | 54707 | 47¼ | 44 | 44¼ | —2¾ |
| WalMt s | 54252 | 38⅝ | 34½ | 35¼ | —3⅛ |
| Sears | 52550 | 52¼ | 48 | 48 | —4⅝ |
| Navistr | 51808 | 7½ | 6½ | 6⅝ | —⅞ |
| AMD | 51228 | 24⅝ | 22⅛ | 22¼ | —2⅜ |
| EKodk | 50599 | 105¼ | 99⅛ | 99⅛ | —5⅝ |
| Zayre | 49148 | 37 | 32 | 32⅝ | +½ |
| USX | 48772 | 38⅝ | 35⅛ | 36⅜ | —1½ |

## AMEX Most Actives

| | Vol. | High | Low | Last | Chg. |
|---|---|---|---|---|---|
| WangB | 21898 | 19½ | 17⅝ | 18⅝ | —¼ |
| EchB g s | 21566 | 28⅝ | 26 | 26⅝ | —1⅞ |
| HmeSh s | 20298 | 13⅝ | 11¼ | 11⅝ | —2¼ |
| WDigitl | 14099 | 26⅞ | 23⅝ | 24⅝ | —⅞ |
| Amdahl | 13317 | 50⅝ | 45½ | 46⅝ | —2½ |
| TexAir | 12898 | 24⅝ | 22 | 22⅝ | —⅞ |
| NtRty n | 12356 | 4⅝ | 3 | 4⅝ | |
| Hasbr s | 10688 | 21⅛ | 18½ | 19 | —⅝ |
| FruitL n | 10675 | 7¾ | 6⅞ | 7⅛ | —½ |
| SterlSft | 10527 | 11⅛ | 8⅛ | 10 | —⅞ |
| NY Time | 9046 | 43¾ | 40½ | 40⅝ | —1¾ |
| Viacm pf | 8830 | 25⅝ | 25 | 25 | —¼ |
| HmHar | 6651 | 15⅝ | 13⅞ | 15¼ | +1 |
| LorTel | 6314 | 16½ | 14⅝ | 14⅞ | —1½ |
| BAT | 5963 | 11⅞ | 11¼ | 11⅝ | —⅞ |
| Teleph | 5932 | 6½ | 5⅞ | 6 | —⅜ |
| GCdaR n | 5667 | 17⅝ | 14¼ | 16⅝ | —1⅝ |
| Alza | 5457 | 39⅝ | 35⅝ | 35⅝ | —3½ |
| FAusPr | 5423 | 8⅝ | 8½ | 8½ | —⅛ |
| ICH | 5406 | 12⅛ | 10½ | 11⅝ | +¼ |
| ImpOil g | 5011 | 59 | 57⅞ | 57½ | |
| Dillard | 4679 | 51⅞ | 44 | 45⅛ | —6½ |
| ENSCO | 4290 | 5⅝ | 5¼ | 5⅝ | —½ |
| CornCr n | 3988 | 16⅝ | 14¼ | 16⅝ | —1⅜ |
| Custmdx | 3827 | 2⅝ | 2½ | 2⅝ | +¼ |

## NYSE Sales

[illegible]

## AMEX Diaries

[illegible]

## NYSE Diaries

[illegible]

## AMEX Sales

[illegible]

# Chicago Exchange Options

*Figures as of close of trading Friday.* Oct. 9

Option & price | Calls | Puts

[illegible]

# New International Bond Issues

*Compiled by Laurence Desvilettes*

| Issuer | Amount (millions) | Mat. | Coup. % | Price | Price end week | Terms |
|---|---|---|---|---|---|---|
| **FLOATING RATE NOTES** | | | | | | |
| Fidelity Federal Savings & Loan Assn. | $100 | 1992 | ⅛ | 100 | 99.80 | Over 3-month Libor. Noncallable. Fees 0.22½%. Denominations $100,000. Collateralized by mortgage securities. |
| **FIXED-COUPON** | | | | | | |
| Al Bank Int'l | $200 | 1989 | 9½ | 101 | 99.38 | Noncallable. Fees 1⅞%. |
| Osaka Prefecture | $120 | 1994 | 10⅛ | 101¼ | 98.00 | Noncallable. Fees 1⅞%. |
| Toyota Motor Finance (Netherlands) | $150 | 1990 | 9⅝ | 101.18 | 99.78 | Noncallable. Fees 1⅞%. |
| Crédit Lyonnais | £75 | 1992 | 10½ | 101⅜ | 98.88 | Noncallable. Fees 1⅞%. |
| National Westminster Bank | Aus$70 | 1992 | 13⅞ | 101⅞ | 100.75 | Noncallable. Fees 2%. Increased from Aus$50 million. |
| Eurofima | NZ$50 | 1989 | 17½ | 101⅞ | — | Noncallable. Fees 1⅞%. |
| **EQUITY-LINKED** | | | | | | |
| Bell Resources Financial Services | $550 | 1997 | open | 100 | 98.00 | Coupon indicated at 5¼ to 5½%. Redeemable in 1993. Convertible into shares of the Broken Hill Pty at an expected 18 to 22% premium. Fees 2½%. Terms to be set Oct. 16. |
| Bridgestone | $100 | 1992 | open | 100 | 100.50 | Coupon indicated at 3⅛%. Noncallable. Each $5,000 note with one warrant exercisable into company's shares at an expected 2½% premium. Fees 2¼%. Terms to be set Oct. 14. |
| Canon | $300 | 1992 | 3½ | 100 | 100.00 | Noncallable. Each $5,000 note with one warrant exercisable into company's shares at 1,333 yen per share and at 147.70 yen per dollar. Fees 2¼%. |
| Canon | $200 | 1993 | 3⅝ | 100 | 97.00 | Noncallable. Each $5,000 note with one warrant exercisable into company's shares at 1,333 yen per share and at 147.70 yen per dollar. Fees 2¼%. |
| Daishowa Paper Manufacturing | $70 | 1992 | 3½ | 100 | 96.50 | Noncallable. Each $5,000 note with one warrant exercisable into company's shares at 1,169 yen per share and at 148.05 yen per dollar. Fees 2¼%. |
| …oart Enterprises | $50 | 2002 | 7 | 100 | 98.50 | Noncallable. Convertible at $25⅛ per share, a 21.3% premium. Fees 2½%. |
| Fuji Bank | $200 | 2002 | 1⅜ | 100 | — | Semiannually. Convertible at 3,408 yen per share and at 146.45 yen per dollar. Fees 2½%. |
| Hitachi Maxell | $70 | 2003 | open | 100 | 101.25 | Semiannual coupon indicated at 1⅝%. Callable at 103 in 1993. Convertible at an expected 5% premium. Fees 2½%. Terms to be set Oct. 13. |
| KAO | $100 | 1992 | 3⅛ | 100 | 98.00 | Noncallable. Each $5,000 note with one warrant exercisable into company's shares at 2,194 yen per share and at 146.45 yen per dollar. Fees 2¼%. |
| Korakuen Company | $50 | 1992 | open | 100 | 98.13 | Coupon indicated at 3⅛%. Noncallable. Each $5,000 note with one warrant exercisable into company's shares at an expected 2½% premium. Fees 2¼%. Terms to be set Oct. 14. |
| …aruetsu | $70 | 1992 | 3½ | 100 | 97.00 | Noncallable. Each $5,000 note with one warrant exercisable into company's shares at an expected 2½% premium. Fees 2¼%. Terms to be set Oct. 14. |
| Nippon Paint | $70 | 1992 | 3⅝ | 100 | 98.50 | Noncallable. Each $5,000 note with one warrant exercisable into company's shares at 677 yen per share and at 147.55 yen per dollar. Fees 2¼%. |
| Nisshin Oil Mills | $70 | 1992 | open | 100 | 97.75 | Coupon indicated at 3⅛%. Noncallable. Each $5,000 note with one warrant exercisable into company's shares at an expected 2½% premium. Fees 2¼%. Terms to be set Oct. 15. |
| Pinnacle West Capital | $75 | 2002 | open | 100 | 98.75 | Coupon indicated at 10 to 10⅛%. Callable at 103 in 1990. Convertible into Arizona Public Services Co. shares at an expected 10 to 13% premium. Fees 2½%. Terms to be set Oct. 14. |
| Ryoden Trading Company | $30 | 1992 | 3½ | 100 | — | Noncallable. Each $5,000 note with one warrant exercisable into company's shares at 908 yen per share and at 148.05 yen per dollar. Fees 2¼%. |
| Seino Transportation | $70 | 1992 | open | 100 | 97.50 | Coupon indicated at 3⅛%. Noncallable. Each $5,000 note with one warrant exercisable into company's shares at an expected 2½% premium. Fees 2¼%. Terms to be set Oct. 12. |
| Senko | $40 | 1992 | 3½ | 100 | | Noncallable. Each $5,000 note with one warrant exercisable into company's shares at 641 yen per share and at 148.05 yen per dollar. Fees 2¼%. |
| …ako-Q | $100 | 1992 | open | 100 | 97.00 | Coupon indicated at 3⅛%. Noncallable. Each $5,000 note with one warrant exercisable into company's shares at an expected 2½% premium. Fees 2¼%. |
| Tosoh | $200 | 1992 | 3⅛ | 100 | 97.75 | Noncallable. Each $5,000 note with one warrant exercisable into company's shares at 759 yen per share and at 146.45 yen per dollar. Fees 2¼%. |
| Trinova | $100 | 2002 | 6 | 100 | — | Callable in 1990. Convertible at $52⅛, a 21.39% premium. Fees 2½%. |
| …indt & Spruengli Finance | DM100 | 1994 | 3¾ | 100 | 104.00 | Each 5,000-mark note with 12 five-year warrants exercisable into 1½ partial company's participation certificates at 2,680 Swiss francs per certificate, a 29% premium. Fees 2½%. |
| Sodick | DM50 | 1993 | 1½ | 100 | 106.00 | Semiannually. Convertible at 2,221 yen per share and at 80.50 yen per mark. |
| Bell Resources Financial Services | £50 | 1997 | open | 100 | 101.00 | Coupon indicated at 4¾ to 5%. Redeemable in 1992. Convertible into shares of the Broken Hill Pty at an expected 18 to 22% premium. Fees 2½%. Terms to be set Oct. 16. |
| Wayne Nickless Finance | £40 | 1994 | open | 100 | 99.50 | Coupon indicated at 6¾ to 7¼%. Callable at 101 in 1992. Convertible at an expected 10 to 15% premium. Fees 2½%. Terms to be set Oct. 15. |
| Bell Resources Financial Services | Aus$200 | 1997 | open | 100 | 100.13 | Coupon indicated at 7¾ to 8%. Redeemable in 1992. Convertible into shares of the Broken Hill Pty at an expected 18 to 22% premium. Fees 2½%. Terms to be set Oct. 16. |

# Salomon Said to Weigh Closing Municipals Unit

By Robert J. Cole
*New York Times Service*

NEW YORK — Faced with exceptionally stiff competition from leading New York banks, Salomon Inc. is seriously considering closing its municipal bond operations, Wall Street executives have said.

Salomon is one of the top five bond firms in the United States, with its municipal operations among the country's most prestigious. According to insiders, the department is not very profitable, however, because the banks offer the same service for much less money.

Compounding the problem, according to executives close to the company, Salomon sustained huge municipal bond trading losses earlier this year when it failed to spot a rise in interest rates. Salomon does not make such information public, but it is thought to have lost $50 million to $100 million, or enough to have crippled a lesser firm severely. The thin margins available even in the best of times, however, have now become a serious concern.

The sources, speaking on Friday, said that if the bond department were to be closed, it would be part of an overall cutback at Salomon that could affect hundreds of jobs at the big Wall Street firm.

No decision has been made about which employees or departments would be affected. But the staff cuts, part of what Salomon is calling a strategic review, are understood to have been discussed extensively by senior executives in the last few days.

The discussions have touched off a flurry of rumors that Salomon has repeatedly fought off by arguing that the review was still under way. In a few cases, Salomon has denied rumors about specific individuals.

Robert S. Salomon Jr., a managing director, called the bond department report "speculative." He also denied persistent rumors spreading through the firm itself that Gedale B. Horowitz, Salomon's municipal bond expert, who played a behind-the-scenes role to helping save New York City from bankruptcy in the 1970s, might be asked to step down. Mr. Horowitz, one of Salomon's highest-paid executives, made $2.84 million last year.

One insider noted that last year Salomon added 40 percent to its personnel — now more than 7,000 people — and that "no organization can grow 40 percent in one year and not have some unnecessary people." Another said: "Certainly, a 10 percent cut has been actively discussed, and some people at Salomon think it ought to be more." A 10 percent reduction could involve as many as 700 people.

People close to Salomon maintained that the firm was profitable, but that "it's very big now and its return on capital is inadequate."

One executive, looking at figures released by the Value Line Investment Survey, noted that Salomon's estimated net worth this year stood at an astounding $3.8 billion but that Salomon got only an 11 percent return on the money, which, be said, was "not enough."

According to several key people familiar with Salomon's problems, the firm's weak areas are commercial paper, often called corporate IOUs; municipal finance, and mortgage-backed securities.

Acting on the theory, as one insider put it, that "it's more productive to get out than to shrink" the business, Salomon is understood to be considering closing its commercial paper department and its municipal department and to be thinking of keeping but shrinking the mortgage-backed operations.

# Aide Denies Baker Seeks A New Gold Standard

By Hobart Rowen
*Washington Post Service*

WASHINGTON — Treasury Secretary James A. Baker 3d, who caused a stir in the financial world by suggesting that gold prices be included among key indicators used to coordinate currency exchange rates, had no intention of triggering a move to a gold standard, according to a Reagan administration official.

The official, speaking Friday on condition of anonymity, said Mr. Baker's aim in his speech Sept. 30 in Washington was only to suggest that a commodities basket, including gold, be added "as an analytical tool" in the economic coordinator process being evolved by the Group of Seven industrial nations. The speech was made at the annual meeting of the International Monetary Fund and World Bank.

But the official acknowledged that there could be an "intermediate step" between using the commodities basket, including gold, as an information guide for exchange rate purposes and returning to a gold standard. The middle ground would be linking monetary policy to a commodities price indicator, of which gold would be a small part.

The official added that there was no agreement yet among the G-7 countries — United States, Japan, West Germany, France, England, Italy and Canada — on using a commodities index or how such an index might be constructed; for example, what weight gold would have in it.

Mr. Baker has refused to elaborate on his suggestion. But in an interview Friday he added that "politics had nothing to do with it." Some conservative U.S. politicians favor a gold-based money system.

President Ronald Reagan is also known to have a philosophical commitment to a gold standard, but is said to acknowledge that it is almost impossible to achieve. Mr. Baker said in the interview that his proposal had "the strong backing of the president."

# Californian Said to Be Sprinkel's Likely Successor

By Nathaniel C. Nash
*New York Times Service*

WASHINGTON — Michael J. Boskin, a Stanford University economist, has emerged as a leading contender to become chairman of President Ronald Reagan's Council of Economic Advisers, according to White House officials.

Mr. Boskin, if nominated by the president and confirmed by the Senate, would succeed Beryl W. Sprinkel, who announced last month that he would resign as the president's top economist by the end of November.

Though Mr. Reagan has not firmly decided on Mr. Boskin, the White House officials said Saturday that the conservative economist underwent a number of interviews at the White House and Treasury on Friday.

Those interviews reportedly included talks with Mr. Sprinkel and the Treasury secretary, James A. Baker 3d.

"No one else has been interviewed" for the position, one official said. He said that Mr. Boskin had the support of both the Treasury secretary and Howard Baker, the White House chief of staff.

They said that Mr. Boskin, who is 40, has been a favorite of Mr. Sprinkel. In 1985, Mr. Sprinkel asked the economist to join the council, but Mr. Boskin declined.

The officials said they were not certain Mr. Boskin would take the chairman's job if offered. Mr. Boskin could not be reached through his office in California.

Though most of the recent chairmen of the council have been concerned with the broad workings of the U.S. economy, Mr. Boskin has concentrated on subsections such as taxation, Social Security and the budget deficit.

He is a professor of economics at Stanford, and a member of the Los Angeles Times board of economists and writes a regular column.

According to Martin Anderson, a former domestic policy adviser to Mr. Reagan, Mr. Boskin was one of the economists the Reagan team consulted even before taking office.

"He has a reputation as a good economist, and he is fairly conservative in most things," said Mr. Anderson, who is now at the Hoover Institution on War, Revolution and Peace, a conservative research center.

Benjamin M. Friedman, professor of economics at Harvard University, said, "I think he's a very good choice, a very smart, high-quality guy.

"He is primarily associated with taking a very free-market, anti-government approach toward issues of public finance such as tax policy and Social Security."

Mr. Friedman said the Boskin attitude could be summed up as: "There is going to be government involvement for better or for worse, and it generally is for the worse."

In the 1970s, economists said, Mr. Boskin advocated a theory that high interest rates, after factoring out inflation and taxes, tended to stimulate people to save more.

"That may have been an attractive theory in the '70s, but we've run that experiment in spades in the 80s, and it has not turned out that way," said one economist.

Mr. Friedman said, however, that "it would be grossly unfair to pick one piece of his work and judge him as an economist on the basis of that; we have all made mistakes."

## Vietnam to Open A Commercial Bank, in South

*The Associated Press*

TOKYO — Vietnam is opening its first capitalist-style commercial bank, Japan's Kyodo News Service reported Sunday.

Kyodo reported from Ho Chi Minh City that the Ho Chi Minh Industrial & Commercial Bank would begin operations Friday, offering deposit, checking and loan services.

The state put up half of the initial capital of 600 million dong ($7.5 million). The rest came from Ho Chi Minh Food Purchasing Corp., Ho Chi Minh Financial Service, small economic units and individuals who bought shares. Existing shares cannot be resold.

Lu Sinh Thoai, a board member, was quoted as saying the bank would invest in businesses such as export-oriented companies and joint ventures with foreign companies.

## H.K. Prime Rate Raised to 8.5%

*Reuters*

HONG KONG — Hong Kong banks are to raise their prime lending rate by one point to 8.5 percent, the highest since May 1985, effective Monday.

The Hong Kong Association of Banks also said Saturday that it will raise deposit rates for loans up to a year by three-quarters to one point.

Foreign exchange dealers said the moves had been expected after U.S. banks raised their prime lending rate, a benchmark rate that banks charge their best corporate customers, by one-half point to 9.25 percent on Wednesday.

## HUTTON: *Laundering Allegation*

(Continued from first finance page)

ment's Organized Crime Strike Force that one of the brokers involved had died and the other was no longer employed by Hutton.

E.F. Hutton pleaded guilty in May 1985 to 2,000 counts of mail and wire fraud. The company paid a $2 million fine, plus government costs of $750,000.

Mr. Sharkey said that case had "no relationship whatsoever" to the current issue.

Reports that a federal grand jury was investigating Hutton transactions in Rhode Island first emerged in February. Mr. Sharkey said, "As Hutton stated at that time, it believes that as a company it is innocent of any wrongdoing."

According to officials, a secretary in Hutton's Providence office was sent to a small bank to buy a bearer bond for $9,999. Finding that she had more than $10,000, she bought the bond in her name.

In an audit by the Internal Revenue Service, she was asked how she could afford a bond of that amount on her modest income. She provided details that started the investigation, the officials said.

Law-enforcement officials were told that associates of Raymond (Junior) Patriarca, an organized crime figure, brought large bundles of cash to the E.F. Hutton office for conversion to bearer bonds. Secretaries were sent to different banks to buy the bonds.

(WP, NYT)



## GM: *Automaker Hopes New Models Won't Be 'Cannibals'*

(Continued from first finance page)

was off 21.2 percent through August."

GM officials say the cannibalization was the unanticipated result of devoting a disproportionate amount of their advertising budget to the new models while cutting back on promoting older lines.

"We'll have more balanced marketing support this year," said Thomas Staudt, Chevrolet's marketing manager. "The real test of the Corsica and Beretta will come in 1988."

Meanwhile, the cars that GM officials are watching the most carefully are the GM-10s, which are even more important to the company. Not only does GM hope to sell twice as many GM-10s as the two Chevrolet models, but the new cars are in the more profitable intermediate-size range.

"We see these cars as intended for the upscale, midsize buyer," said Paul W. Schmidt, manager of the GM-10 program. The Buick Regal carried a $12,782 sticker price at its introduction.

Although all the models will have the same basic structure, GM officials are counting on them to put an end to its lookalike-car problem.

"The exterior, the instrument panel, the seats, everything the customer sees is different," Mr. Schmidt said. "The only thing they have in common on the outside is the windshield."

GM has long marketed essentially the same car under multiple brand names to spread engineering and tooling costs over a greater sales volume. Styling differences had been used in the past to distinguish a Buick from an Oldsmobile. But as the company converted from rear- to front-wheel drive in the 1980s, those differences diminished, leading to the complaint that all GM cars looked the same.

GM once dominated the midsize market, but Ford's Taurus and Mercury Sable have made inroads since their introduction in late 1985. In the first eight months of this year, GM's share of the segment declined by almost 13 percentage points, while Ford gained nearly 10.

Once again, top GM executives are counting on new models to win back customers who have switched to other brands.

Claude N. Moore, the company's vice president for sales, added: "We absolutely expect" the new midsize cars to gain share. "We expect it to come back darn good."

But some outsiders have doubts. Noting the experience of the Corsica and Beretta, David Healy, an automotive analyst with Drexel Burnham Lambert Inc., said he was convinced that the new intermediate GM-10 models "will cannibalize sales of GM's existing models rather than take away much from Ford or other competitors."

He said that GM's existing midsize cars are "long of tooth" and that customers looking for a midsize car will favor the new models. But be predicted that these purchasers will be diehard GM loyalists, not Ford or Toyota customers.

Auto magazines, which are important molders of public attitude, are also questioning whether the new models will be attractive to anyone but diehard GM buyers.

Part of the problem, Automobile Magazine said, is that "GM's loyalties are split between its traditional owners," who are older people, "and the baby boomers, so the GM-10 feels far more like a mainstream car than a new kind of driving experience."

Other reviews have criticized the cars for being underpowered, although most praise the handling, styling and interior appointments.

Edward Mertz, general manager of GM's Buick division, conceded that establishing the Regal will be more difficult than in the past.

"The whole market is getting more crowded," he said. "The day when you could just put a car out there and take orders is gone."

Mr. Mertz said be hopes the new models will attract younger buyers, who have disproportionately favored imports. Target buyers, he said, have an average age of about 35 years, compared with 45 for the old, rear-drive Regal model.

## EUROBONDS: *Frankfurt Frenzy Caps a Bad Week*

(Continued from first finance page)

which was reported to have purchased 300 million DM of bonds in an effort to stabilize the market.

Nevertheless, prices were down an average 1½ points, or 15 DM per 1,000 DM bond — a big drop in a market where daily prices normally move not more than ¼ point.

The price drop pushed yields on one-year paper up 30 basis points, about one-third of a percentage point, to 5.15 percent. Yields on five-year paper rose ¼ point to 6.25 percent; seven-year yields rose 30 basis points to 6.9 percent and 10-year paper yielded 7.10 percent, a gain on the day of 17 basis points.

Trading in DM Eurobonds virtually ceased, although the price markdowns were less severe than in the domestic market because of the expectation that this paper will not become taxable.

Analysts say that domestic yields will probably have to rise 10 percent to cover the tax, meaning paper that would have needed to yield 6 percent would have to yield 6.6 percent.

Domestic yields were rising even before the news about the tax proposal as a result of the Bundesbank's nudging up short-term rates. Tighter credit policies were evident in all major markets, signaling a coordinated drive by central banks to nip in the bud the global rise in inflation expectations, and souring bond markets everywhere.

The yield on the U.S. Treasury's 30-year bond hit a 22-month high on Friday of 9.91 percent, up from 9.87 percent on Thursday. With the yield now within touching distance of the 10 percent level, traders now question whether that will be enough to trigger a rally in the bond market or whether investors will hold back, waiting to see if the top in the current spiral takes the yield over 10 percent.

With fixed-coupon investments out of favor everywhere, an attempt was made last week to reopen the floating-rate-note sector of the Eurobond market with a $100 million, five-year issue from Fidelity Federal Savings & Loan Association. The paper is collateralized, giving the issue a triple-A rating. However, even the coupon of ⅛ point over Libor failed to excite investors who have been disillusioned about the ability to trade FRNs.

The relatively small issue was placed. But underwriters said it is clear that there is no substantial demand for FRNs, which formerly were the favored haven in a period of rising interest rates.

As in previous weeks, the bulk of the new issue activity was confined to equity-linked paper. And again, this was dominated by Japanese companies. Names such as Bridgestone, Canon and Hitachi Maxell attracted some international support, but the bulk of the paper was sold to investors in Japan.

The DM equity bond from Lindt met a solid success, but the three-part convertible from Bell Resources had a mixed reception: Its $550 million issue was deemed too large while the companion £50 million and 200 million Australian dollar issues ended the week trading at modest gains over the offering price.

# Bank Loans on Track for Biggest Year Since 1983, OECD Data Show

By Carl Gewirtz
*International Herald Tribune*

PARIS — The international credit market is poised to make its best showing this year since the heyday preceding the 1982 outbreak of the debt crisis.

Data published last week by the Organization for Economic Cooperation and Development show that international bank loans, although down sharply in the third quarter, totaled $44.3 billion during the first nine months of the year.

This puts the market within easy striking distance of its most active year since 1983, when such lending dropped sharply to $67 billion.

The OECD figures for the third quarter do not include the £5 billion credit for Eurotunnel, the French-British consortium constructing a tunnel under the English Channel. Put into syndication in late August, the loan is expected to be completed this week.

Managers last week reported having raised £1.8 billion in syndication and additional responses are expected before the closing.

The credit runs for 18 years. Interest is set at 1¼ points over the London interbank offered rate during construction, which is expected to be completed in 1993, and 1 point over Libor thereafter.

Last week also saw the completion of a $200 million, five-year credit for the Bank of China. Noteworthy in this loan is the

**INTERNATIONAL CREDIT**

novel formula for the base lending rate, which harnesses the steepness of the yield curve to give the borrower a low cost of funds and lenders a high return on their commitments.

In the jargon, this is called mismatching — with banks lending at the six-month rate but funding themselves at the overnight rate. Any lender can do that, but it is a dangerous gambit. If overnight rates suddenly rise, lenders could find their own cost of funds higher than the six-month rate they have locked into.

The formula developed by IBJ Schroder Bank protects lenders against such a development. In any six-month period, the borrower can choose as the base rate either the rate for 90-day certificates of deposit adjusted for reserve requirements, plus 24 basis points, or six-month Libor flat, with no margin.

The chosen base rate is then adjusted on a daily basis, allowing lenders to use overnight funds to finance their commitment. At present, for example, six-month Libor is 9 percent but the cost of overnight money is 7½ percent. That would give lenders an effective margin of 1½ points over their borrowing costs — a margin higher than even the South American debtors currently pay — while the cost to China is only Libor.

Some $500 million was raised in syndication and the size of the loan was increased from the initial target of $150 million.

In syndication is a $75 million, 10-year loan for the Development Fund of Iceland, which raises funds for lending to industrial and regional development projects. The state-guaranteed borrower is paying 17½ basis points over Libor during the first six years and 22½ basis points over Libor in the final four years.

The loan can be drawn over a six-month period and thereafter there is a commitment fee of 6¼ basis points on undrawn balances. Front-end fees range up to 10 basis points for banks underwriting $7.5 million.

Los Angeles announced plans last week to raise up to $600 million through the sale of commercial paper and up to $400 million through the sale of medium-term notes. It will tap either the domestic or international market, depending on where costs are lowest.

Dealers for the commercial paper are First Chicago, Merrill Lynch, Morgan Stanley and Shearson Lehman Brothers.

On Friday, one-month CP was 9 basis points lower than the composite rate on Euro-CP compiled by the Bank of England. The cost to issue three-month CP was 37 basis points cheaper to New York.

Although some $9 billion in medium-term Euronote programs have been announced, dealers report that less than $2 billion of such paper is actually outstanding. GMAC, the largest user of this fledgling market, has an estimated $800 million outstanding.

Dealers complain that not enough paper is being issued to give the sector the volume it needs to become a credible adjunct of the international market.

In the sterling market, Chemical Bank is organizing an 8½-year loan of £485 million to help finance the management buyout of MFI, the furniture retailer, and the new company's purchase of Hygena, a furniture supplier. The loan carries an interest rate of 1⅜ points over Libor. An additional £30 million is being provided as working capital.

French corporate use of the international market remains active, with Perrier scheduled to seek $300 million this week while Au Printemps, the retail chain, and Financière Agache, a textile industry holding company, are seeking facilities denominated in European currency units. Participation in these last two operations is limited to banks operating in France as there is an option to borrow domestic currency.

Printemps is in the market for a credit of 200 million ECU for five years. It will pay an annual facility fee of 6½ basis points on undrawn available amounts and 4 basis points on the amount, not exceeding 25 percent, that it declares to be on reserve. It takes one month's notice to move from reserve to available but the change can be done more quickly on payment of a penalty fee of 2 basis points.

# NASDAQ National Market

*OTC Consolidated trading for week ended Friday.* Oct. 9

| | | | Sales in 100s | High | Low | Close | Net Ch'ge |
|---|---|---|---|---|---|---|---|
| **A** | | | | | | | |
| A&W Bd | | | 1420 | 15¼ | 14¼ | 14¾ | |
| ABS | .80 | 4.6 | 11 | 17½ | 17½ | 17½ | |
| ACC Cp | | | 276 | 2⅛ | 2 | 2 | — ⅛ |
| ADC | | | 972 | 30¼ | 29½ | 30 | — ¼ |
| AEC | .33 | 2.5 | 74 | 13¼ | 12⅞ | 12⅞ | — ⅜ |
| AEL | | | 1048 | 14¼ | 13¾ | 14¼ | + ¼ |
| AEP | | | 712 | 10⅝ | 10¼ | 10⅝ | |
| AIFS | | | 33 | 8½ | 0 | 0 | |
| AIM Tel | | | 190 | 10 | 9¼ | 9¼ | — ⅛ |
| ALC Cm | | | 1504 | 2½ | 2 | 3¼ | + ⅛ |
| AME | | | 848 | 10⅛ | 9⅞ | 10 | — ⅜ |
| ASK | | | 7260 | 14 | 12⅛ | 12½ | —1⅜ |
| AST | | | 4418 | 16½ | 15¼ | 16¼ | + ¼ |
| ATI | | | 1043 | 13⅝ | 13¼ | 13⅛ | |
| AW A | | | 508 | 3 | 2⅞ | 2 | + ⅝ |
| AarnBr | | | 36 | 13 | 12¼ | 12¼ | —1 |
| AarnRf | .10 | .9 | 60 | 12¼ | 11¾ | 11⅛ | — ¼ |
| AbingS | | | 315 | 14 | 12¾ | 13 | — ⅞ |
| AbeLInc | | | 557 | 12⅛ | 11½ | 12 | — ½ |
| Abrams | .24 | 3.1 | 20 | 7⅝ | 7⅝ | 7⅝ | |
| AcaJoe | | | 4325 | ⅞ | ⅝ | ⅞ | |
| Acadin | | | 2445 | 2⅞ | 2⅞ | 2½ | + ⅛ |
| Accel | 1 | | 198 | 9¼ | 8⅞ | 8⅞ | — ⅜ |
| Aceptin | | | 641 | 13¼ | 12¼ | 13 | + ¾ |
| Aceto | .14r | 1.0 | 284 | 16 | 14¼ | 14½ | — ¼ |
| ACMT o | t | | 246 | 17½ | 16¾ | 16¾ | — ⅛ |
| AcmeSl | | | 728 | 16½ | 16 | 16⅛ | + ⅜ |
| ActARt | | | 478 | 17 | 16 | 16¼ | |
| ActAuSt | | | 122 | 7¼ | 7 | 7¼ | |
| Activan | | | 5174 | 2½ | 2 | 2 | — ⅞ |
| Actmd s | | | 1316 | 22½ | 19¾ | 20 | —2 |
| Acusn | | | 2757 | 21 | 19¾ | 20¼ | — ¾ |
| AdacLb | | | 535 | 2⅛ | 2⅛ | 2⅛ | |
| Adage | | | 428 | 2⅜ | 1⅞ | 3¼ | — ¼ |
| Adapt | | | 1309 | 11¾ | 11 | 11 | — ⅜ |
| AdisnW | 1.00 | 1.6 | 239 | 61¼ | 59¼ | 61 | +1¾ |
| AdiaSv | .10 | .4 | 639 | 27½ | 26 | 26 | — ½ |
| Admac | | | 458 | 1⅞ | 1⅛ | 1½ | — ⅛ |
| AdobS s | | | 5483 | 45½ | 39 | 39 | —5½ |
| Adtec | | | 348 | 9¾ | 7½ | 7¾ | —2¼ |

| | | | Sales in 100s | High | Low | Close | Net Ch'ge |
|---|---|---|---|---|---|---|---|
| AlldBk | 1 | | 73 | 12¾ | 12¼ | 12¼ | — ¼ |
| AlldCo s | .64 | 2.9 | 186 | 22½ | 22 | 22½ | + ½ |
| AlldGp | .36 | 2.8 | 26 | 12¼ | 12¾ | 12¾ | — ¾ |
| AlldRsh | | | 778 | 8½ | 0 | 0¼ | — ¼ |
| Allison | | | 508 | 6⅛ | 6 | 6 | — ½ |
| AlayCpt | | | 468 | 10¼ | 9½ | 9¾ | + ⅜ |
| Allwast | | | 2572 | 20½ | 19¼ | 19½ | — ½ |
| Aloette | | | 4 | 4¾ | 4¾ | 4¾ | — ¾ |
| Alphanl | | | 780 | 7½ | 6¼ | 6¼ | —1½ |
| AlpMic | | | 171 | 4⅞ | 4⅝ | 4⅝ | |
| Alphal | | | 135 | 9½ | 8½ | 9¼ | — ½ |
| Al601 | | | 10 | 5⅛ | 4⅞ | 4⅞ | |
| Altmcr | | | 375 | 3⅛ | 2⅞ | 2 | |
| Altus | | | 870 | 9 | 8⅞ | 8⅞ | — ⅛ |
| Altos | | | 4258 | 15 | 14½ | 14⅞ | + ¼ |
| Altron | | | 251 | 6¾ | 6 | 6 | |
| AmbFn | | | 766 | 4⅛ | 3⅝ | 3⅞ | — ⅜ |
| Amcast | .44 | 3.1 | 1966 | 17½ | 13¼ | 14 | +1 |
| Amcole | | | 540 | 5¾ | 5⅛ | 5⅞ | + ⅞ |
| Amcor | .36 | 2.5 | 126 | 16 | 14⅛ | 14⅞ | + ⅛ |
| Swtrd | | | 10 | 3⅛ | 3⅛ | 3⅛ | + ½ |
| Amrian | | | 291 | 9⅝ | 9 | 9¼ | |
| Amerbc | .20 | 1.5 | 46 | 13¼ | 12½ | 13 | + ⅛ |
| AFFMt2 | | | 583x | 9¼ | 8⅝ | 8⅝ | — ¼ |
| AFTxEx | 1.70e | 9.6 | 305 | 19½ | 17⅞ | 17⅞ | — ⅜ |
| AFTxE2 | 1.11e | 6.9 | 386 | 16½ | 15¾ | 16 | — ½ |
| AWAirl | | | 3075 | 7⅝ | 7¼ | 7¼ | — ⅜ |
| AmBkCt | .80 | 3.9 | 20 | 20¾ | 20 | 20¾ | + ¾ |
| ABnkr | .50 | 4.2 | 2449 | 12 | 11⅜ | 11⅜ | + ⅛ |
| ACapac | .20e | 1.9 | 151 | 10⅝ | 10⅜ | 10½ | + ⅛ |
| AmCarr | | | 1587 | 8⅞ | 8⅝ | 8⅞ | — ⅜ |
| AmCity | | | 174 | 42¾ | 41 | 41¾ | — ¼ |
| AmColld | | | 16 | 19 | 17½ | 17½ | —1½ |
| AConsu | | | 228 | 14 | 12 | 12 | —2 |
| AContl s | | | 561 | 7⅛ | 6¾ | 7 | + ⅛ |
| AmCrse | 1 | | 137 | 2⅛ | 1½ | 2 | — ⅛ |
| AmEcol | | | 131 | 17 | 14 | 14½ | — ¼ |
| AEspl | | | 338 | 4⅝ | 4 | 4⅛ | — ⅛ |
| AFdSL | .30 | 4.4 | 74 | 7 | 6⅞ | 6¾ | — ⅛ |
| AFSvDu | | | 33 | 9⅝ | 9¼ | 9⅝ | — ¼ |
| AFlitrn | .76 | 3.5 | 127 | 22⅝ | 22 | 22 | —1 |
| AmFrst | | | 721 | 1⅞ | 1⅞ | 1½ | — ¼ |

# Mutual Funds

*Figures as of close of trading Friday* Oct. 9

NEW YORK (AP) — The following quotations, supplied by the National Association of Securities Dealers, Inc., are the prices at which these securities could have been sold (Net Asset Value) or bought (value plus sales charge) Friday.

(Continued on next page)

# American Exchange Options

*Figures as of close of trading Friday.* Oct. 9

# NASDAQ National Market

*OTC Consolidated trading for week ended Friday.*

(Continued)

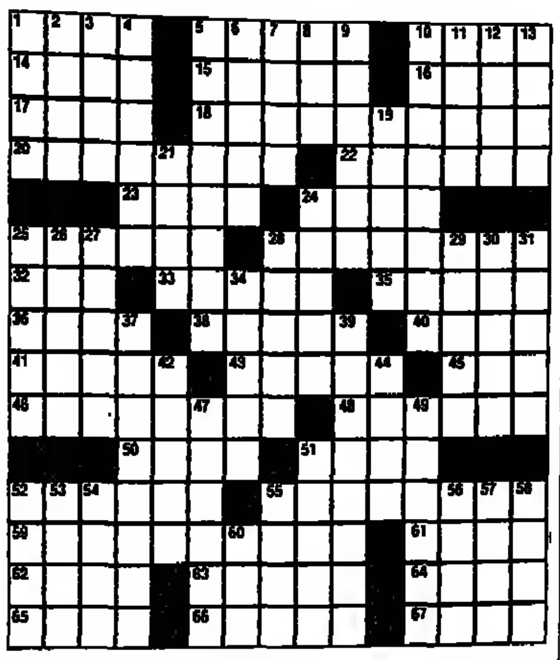
[illegible]

### SELECTED U.S.A./O.T.C. QUOTATIONS

| | BID | ASK |
|---|---|---|
| Alan Jones Pit Stop | 2¾ | 3 |
| Bitter Corp. | 1⅝ | 2 |
| Chiron | 24¾ | 25¼ |
| GoodMark Food | 15½ | 15⅝ |
| MAG Holdings | 2 | 2⅛ |
| NAV-AIR | — | 2⅛ |
| Spectrodyne | 44¾ | 45 |

WITH COMPLIMENTS OF CONTINENTAL AMERICAN

*These are indicative market prices*



**ACROSS**

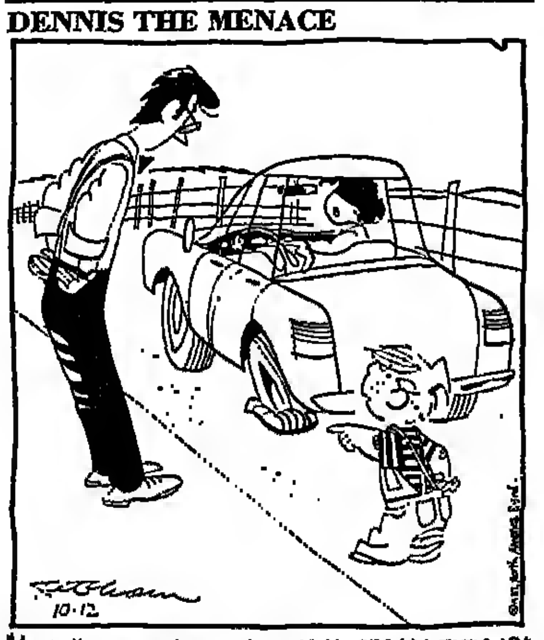
1 Longest river in Spain
5 Bogus
10 Thwart
14 Two, in Nice
15 N.A. Indian
16 Turkish regiment
17 Partner of bitsy
18 Society's elite
20 TV show based on "Our Hearts Were Young and Gay"
22 Affection
23 Start of N.C.'s motto
24 He wrote "The Left Bank"
25 Goober
28 Wordless comic bit
32 Tennis term
33 New Guinea
35 Eiffel Tower division
36 Ancient temples
38 Guidance of a sort
40 Author of "My People"
41 Jackets and collars
43 Successful
45 Norwegian coin
46 Hockey position
48 Opposes courageously
50 Counting-out word
51 TV's talking horse
52 Amphibious vehicle
55 Push a bill through abruptly
59 Legislative branch
61 Greek flask
62 Blue flag, for one
63 "Four Quartets" poet
64 French land masses
65 Yurt, e.g.
66 Ainge of the Celtics
67 Assignment

**DOWN**

1 What diaskeuasts do
2 Hebrew letter
3 Artifice
4 Type of mask
5 Kind of general
6 Spacious
7 Drinks like a dog
8 Andress film: 1965
9 Cause bias by insinuations
10 Hair ornament
11 Astringent
12 Wear well
13 Acquaintances et al.
19 Hidden store
21 "The jig —!"
24 Laughing
25 One-picture cartoon
26 Delight
27 Reserved
28 Engaged in litigation
29 Miss Hungary of 1936
30 Henry Wallace's middle name
31 Chromosome constituents
34 Showy spring flower
37 What banks give and receive
39 Temperance
42 Depone
44 Strip
47 Crept along
49 Dexterous
51 Kind of jar
52 Came to earth
53 Additional
54 Minn. ballplayer
55 Downfall
56 Spanish jar
57 Mimics
58 Office necessity
60 Biographer Winslow

*© New York Times, edited by Eugene Maleska.*

## DENNIS THE MENACE



"ARE YA GONNA GIVE IT ARTIFICIAL RESUSCITATION?"

## JUMBLE

THAT SCRAMBLED WORD GAME by Henri Arnold and Bob Lee

Unscramble these four Jumbles, one letter to each square, to form four ordinary words.

JYKER

HEMTY

CONNAY

GERBID


Now arrange the circled letters to form the surprise answer, as suggested by the above cartoon.

Print answer here:

(Answers tomorrow)

Friday's Jumbles: EXPEL ICING CUPFUL KNIGHT
Answer: Another name for nepotism—"KINFLUENCE"

# WEATHER

| EUROPE | HIGH C | HIGH F | LOW C | LOW F | |
|---|---|---|---|---|---|
| Algarve | 20 | 68 | 9 | 48 | cl |
| Amsterdam | 13 | 55 | 9 | 48 | fr |
| Athens | 25 | 77 | 17 | 63 | cl |
| Barcelona | 18 | 64 | 12 | 54 | fr |
| Belgrade | 24 | 75 | 15 | 59 | fr |
| Berlin | 18 | 64 | 13 | 55 | o |
| Brussels | 12 | 54 | 7 | 45 | cl |
| Budapest | 23 | 73 | 12 | 54 | fr |
| Copenhagen | 13 | 55 | 12 | 54 | o |
| Costa Del Sol | 20 | 68 | 9 | 48 | fr |
| Dublin | 11 | 52 | 1 | 34 | cl |
| Edinburgh | 9 | 48 | 2 | 36 | fr |
| Florence | 19 | 66 | 15 | 59 | st |
| Frankfurt | 16 | 61 | 11 | 52 | fr |
| Geneva | 11 | 52 | 10 | 50 | r |
| Helsinki | 14 | 57 | 7 | 45 | fr |
| Las Palmas | 24 | 75 | 22 | 72 | cl |
| Lisbon | 18 | 64 | 12 | 54 | r |
| London | 14 | 57 | 5 | 41 | fr |
| Madrid | 9 | 48 | 5 | 41 | r |
| Milan | 16 | 61 | 16 | 61 | r |
| Moscow | 14 | 57 | 2 | 36 | fr |
| Munich | 17 | 63 | 11 | 52 | o |
| Nice | 18 | 64 | 15 | 59 | r |
| Oslo | 12 | 54 | 11 | 52 | r |
| Paris | 14 | 57 | 6 | 43 | fr |
| Prague | 18 | 64 | 9 | 48 | cl |
| Reykjavik | 2 | 36 | -1 | 30 | fr |
| Rome | 26 | 79 | 20 | 68 | o |
| Stockholm | 12 | 54 | 10 | 50 | o |
| Strasbourg | 12 | 54 | 10 | 50 | o |
| Venice | 20 | 68 | 16 | 61 | r |
| Vienna | 21 | 79 | 14 | 57 | o |
| Warsaw | 21 | 70 | 10 | 50 | fr |
| Zurich | 14 | 57 | 10 | 50 | o |

| MIDDLE EAST | HIGH C | HIGH F | LOW C | LOW F | |
|---|---|---|---|---|---|
| Ankara | 23 | 73 | 9 | 48 | fr |
| Beirut | — | — | — | — | na |
| Cairo | 31 | 88 | 19 | 66 | fr |
| Damascus | 28 | 82 | 19 | 66 | cl |
| Istanbul | 18 | 64 | 14 | 57 | cl |
| Jerusalem | 22 | 72 | 15 | 59 | o |
| Tel Aviv | 25 | 77 | 19 | 46 | cl |

| OCEANIA | HIGH C | HIGH F | LOW C | LOW F | |
|---|---|---|---|---|---|
| Auckland | 16 | 61 | 14 | 57 | fr |
| Sydney | 19 | 66 | 17 | 63 | cl |

| ASIA | HIGH C | HIGH F | LOW C | LOW F | |
|---|---|---|---|---|---|
| Bangkok | 33 | 91 | 25 | 77 | st |
| Beijing | 21 | 70 | 17 | 63 | o |
| Hong Kong | 30 | 86 | 27 | 81 | cl |
| Manila | 32 | 90 | 26 | 79 | st |
| New Delhi | 36 | 97 | 25 | 77 | fr |
| Seoul | 26 | 79 | 18 | 64 | fr |
| Shanghai | 26 | 79 | 21 | 70 | fr |
| Singapore | — | — | — | — | na |
| Taipei | 29 | 84 | 26 | 79 | cl |
| Tokyo | 22 | 72 | 19 | 66 | o |

| AFRICA | HIGH C | HIGH F | LOW C | LOW F | |
|---|---|---|---|---|---|
| Algiers | 18 | 64 | 15 | 59 | r |
| Cape Town | — | — | — | — | na |
| Casablanca | 22 | 72 | 17 | 63 | fr |
| Harare | 25 | 77 | 19 | 66 | fr |
| Lagos | 29 | 54 | 23 | 73 | o |
| Nairobi | — | — | — | — | na |
| Tunis | 25 | 77 | 20 | 68 | o |

| LATIN AMERICA | HIGH C | HIGH F | LOW C | LOW F | |
|---|---|---|---|---|---|
| Buenos Aires | 23 | 73 | 17 | 63 | r |
| Caracas | — | — | — | — | na |
| Lima | 20 | 68 | 18 | 64 | fr |
| Mexico City | 26 | 79 | 11 | 52 | pc |
| Rio de Janeiro | 26 | 79 | 21 | 70 | fr |

| NORTH AMERICA | HIGH C | HIGH F | LOW C | LOW F | |
|---|---|---|---|---|---|
| Anchorage | 7 | 45 | 0 | 32 | cl |
| Atlanta | 24 | 75 | 11 | 52 | pc |
| Boston | 8 | 46 | 5 | 41 | r |
| Chicago | 8 | 46 | 8 | 32 | pc |
| Denver | 17 | 63 | 1 | 34 | pc |
| Detroit | 9 | 48 | 2 | 36 | pc |
| Honolulu | 32 | 90 | 24 | 75 | fr |
| Houston | 27 | 81 | 16 | 61 | pc |
| Los Angeles | 28 | 82 | 17 | 63 | pc |
| Miami | 30 | 86 | 25 | 77 | st |
| Minneapolis | 10 | 50 | 0 | 32 | fr |
| Montreal | 6 | 43 | -2 | 28 | cl |
| Nassau | 30 | 86 | 25 | 77 | sh |
| New York | 10 | 50 | 6 | 43 | r |
| San Francisco | 22 | 72 | 14 | 57 | cl |
| Seattle | 22 | 72 | 8 | 46 | fr |
| Toronto | 8 | 46 | 0 | 32 | cl |
| Washington | 19 | 66 | 9 | 48 | cl |

cl-cloudy; fo-foggy; fr-fair; h-hail; o-overcast; pc-partly cloudy; r-rain; sh-showers; sw-snow; st-stormy.

MONDAY'S FORECAST — CHANNEL: Rough. FRANKFURT: Rain. Temp. 14—9 (57—48). LONDON: Rain. Temp. 14—6 (57—43). MADRID: Showers. Temp. 9—5 (49—41). NEW YORK: Partly cloudy. Temp. 13—6 (55—43). PARIS: Showers. Temp. 14—6 (57—43). ROME: Showers. Temp. 22—18 (72—64). TEL AVIV: Not Available. ZURICH: Rain. Temp. 12—5 (54—46). BANGKOK: Thunderstorms. Temp. 33—25 (91—77). HONG KONG: Fair. Temp. 30—26 (86—79). MANILA: Showers. Temp. 34—25 (93—77). SEOUL: Mist. Temp. 26—15 (79—59). SINGAPORE: Thunderstorms. Temp. 34—25 (93—77). TOKYO: Rain. Temp. 22—15 (72—59).

# SPORTS

## SPORTS BRIEFS

### Ramirez Retains WBC Lightweight Crown

PARIS (UPI) — José Luis Ramirez of Mexico retained his World Boxing Council lightweight title Saturday night with a fifth-round knockout of Cornelius Boza-Edwards.

Ramirez, 28, downed Boza-Edwards with a right and a left to the face. With 100 victories and 5 losses, he made his first successful defense of the WBC title he has held twice. Boza-Edwards, 31, a native of Uganda who now is a British citizen, fell to 45-7-1.

### Tewell Takes 3d-Round Lead in Florida Golf

PENSACOLA, Florida (AP) — Doug Tewell shot a 5-under-par 66 Saturday for the second consecutive day to take a one-stroke lead over Danny Edwards and Phil Blackmar after the third round of the Pensacola Open golf tournament.

Tewell had a three-round score of 12-under-par 201 at the Perdido Bay Resort. Edwards, the 1985 champion, with a 68 Saturday and a 67 Friday, was tied at 202 with Blackmar, who shot 66 and 69.

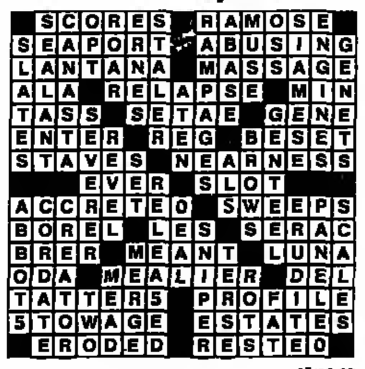
Edwards had gone into Saturday tied for the lead with Trevor Dodds at 134, both having shot 67s in the first two rounds. Dodds, with a 71 on Saturday, fell into a tie for fourth with Tom Byrum at 205.

### Creme Fraiche Wins 2d Jockey Club Cup

ELMONT, New York (AP) — Creme Fraiche upset heavily favored Java Gold on Saturday and won the 1½-mile (2,414-meter) Jockey Club Gold Cup at Belmont Park for the second straight year.

Ridden by Laffit Pincay Jr., Creme Fraiche was a 4¾-length victor over Java Gold, who had won three straight Grade 1 events — the Whitney, Travers and Marlboro Cup.

Solution to Friday's Puzzle



10/10/87

### Li Sets Track Mark

HAMAMATSU, Japan (AFP) — Li Huirong of China set a world record for the women's triple jump with a leap of 14.04 meters (46 feet, 4 inches) at a track meet in this central Japanese city on Sunday.

Li, 22, smashed the previous mark of 13.85 meters, held by Sheila Hudson of the United States, on her third jump of the event. Her leap also topped the indoor record of 13.98 meters, held by Galina Chistyakova of the Soviet Union.

The women's triple jump was officially created just last year, and it has not been recognized as an Olympic event.

## VANTAGE POINT/Tony Kornheiser

# The NHL Sure Knows How to Pull a Punch

*Washington Post Service*

WASHINGTON — What's new in National Hockey League this season? A serious attempt to eliminate the kind of Pier 6 brawling that turned the Montreal-Philadelphia playoff series into a steel cage wrestlemania.

Surely you remember the Canadiens and Flyers engaging in the Great White North version of the Dance of the Sugarplum Fairies. Getting the jump on the night's regularly scheduled card, this particular fight started in pregame warmups.

Montreal's Claude Lemieux and Shayne Corson were honoring their personal superstitions by shooting the puck into the opposition's empty net when Ed Hospodar and Chico Resch displayed their own cute superstitions by gangstering Lemieux and Corson.

In a flash, hordes of players, some wearing only skivvies and skates (a bold fashion statement, eh?) rushed onto the ice to duke it out. On and on they fought — during the game, between periods, later on in the hotel lobby. For all I know, they're fighting still.

No big deal. Some guys need a cup of coffee first thing in the morning. A real hockey player can't get started without blood trickling down the bridge of his nose. As hockey-sociologist Phil Esposito once remarked: "If they took away our sticks and gave us brooms, we'd still have fights."

Anyway, the spectacle was such an embarrassment to the NHL that e rule was written that imposes costly penalties not only on players who bolt from the bench to get in a few good licks, but on their coaches, too. Give the league credit for knowing where the responsibility for fighting lies. Most of its coaches send players over the boards like it's the landing on Omaha Beach.

First player off the bench draws a 10-game suspension; his coach, e five-gamer. Second player in gets five games off; his coach, three.

We're talking serious sabbaticals. A 10-gamer bites off one-eighth of the season. Bad enough that one of your pleyers gets the heave, but don't you think coaches are terrified about getting suspended? What if a coach's replacement wins five in a row? Yo, coach! Phone call for you. . . .

Jim Thompson, a Washington Capital farmhand, last season logged 41 fights and 395 penalty minutes in 67 games. Admitting his "hands get sore after a while," Thompson recently reflected on his role as a goon.

"A lot of times you fight the same guy, like it's part of the game. I fought Jay Fraser of Rochester eight times last year. It got to be where he'd skate up and say, 'How are you Jim?' and away we'd go."

**'Some guys need a cup of coffee first thing in the morning. A real hockey player can't get started without blood trickling down the bridge of his nose. As hockey-sociologist Phil Esposito once remarked: 'If they took away our sticks and gave us brooms, we'd still have fights.'**

Will the new rule stop that? No. The rule is there to stop brawls, not fights. Fights are always welcome here. This is Miller Time. This ain't no disco, eh?

"It seems to me," observed the Capitals' Craig Laughlin, "the fans want to see fighting." Who, after all, is kidding whom?

Conceded David Poile, the team's general manager: "If we wanted to take fighting out of the game, we'd have done it. I wouldn't be against eliminating it altogether, but I'm in the minority. There's still the belief that fighting serves a purpose in the game."

Shoppers in my aisle think the NHL is afraid that, without fighting, they've got soccer on the rocks. As in: Anybody got a forwarding address for the NASL?

Fan: "What time's the game tonight?"

Ticket Window: "What time would you like us to send the limo for you?"

College hockey doesn't tolerate fighting. You fight, you're tossed for that game and the next one too. It's working great in college. On the flip side, maybe I just have bad reception, but it's been a while since I've seen college hockey on television. I don't know, what — 25 or 30 years?

People like Poile and Bryan Murray, Washington's coach, well-meaning people, not violent sorts themselves, think that wouldn't work in the NHL.

Strangely enough, Murray says, the one-on-one fight can function for law enforcement. "When you throw people out for fighting," he says, "everybody becomes a tough guy. They put the stick to you, knowing if you retaliate you'll be off the ice. When fighting's tolerated, at least I have a recourse."

Poile and Murray also concur that tossing one-on-one fighters can foster a competitive unbalance that would penalize civil teams like the Caps.

"The trades are never even," says Murray, warning, "You'll send one of your lesser players after one of my stars just to sucker him into a fight and get him ejected." Poile believes fighting is gradually being weaned from the game anyway, and high-tech is to thank.

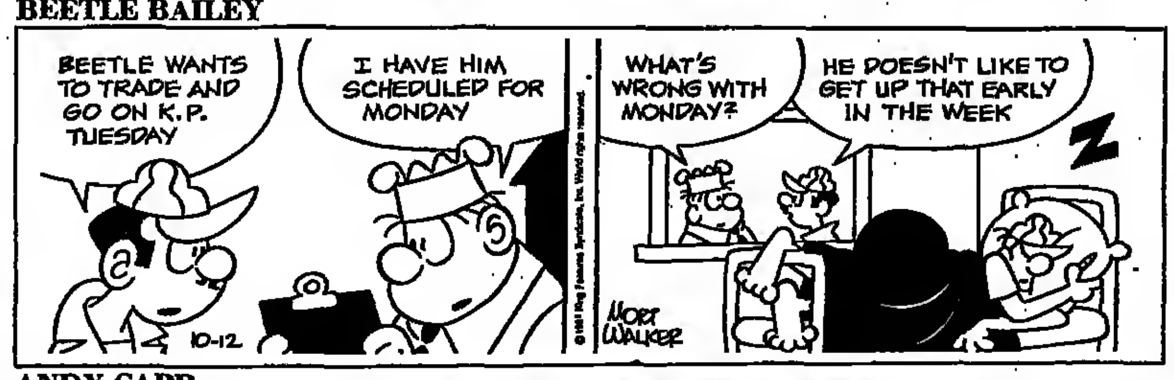
First helmets, now visors. You can break your hand landing a roundhouse on those shields (soon at drive-ins everywhere: "Gordie Meets The Zamboni" starring Pat LaFontaine).

It's times like this when Dave Schultz, the old Flyer ruffian, probably sits back and reflects on just how lucky he was to have played in an era when it was still possible for a hardworking guy to punch somebody's teeth out just for the fun of it.

## PEANUTS


## BLONDIE

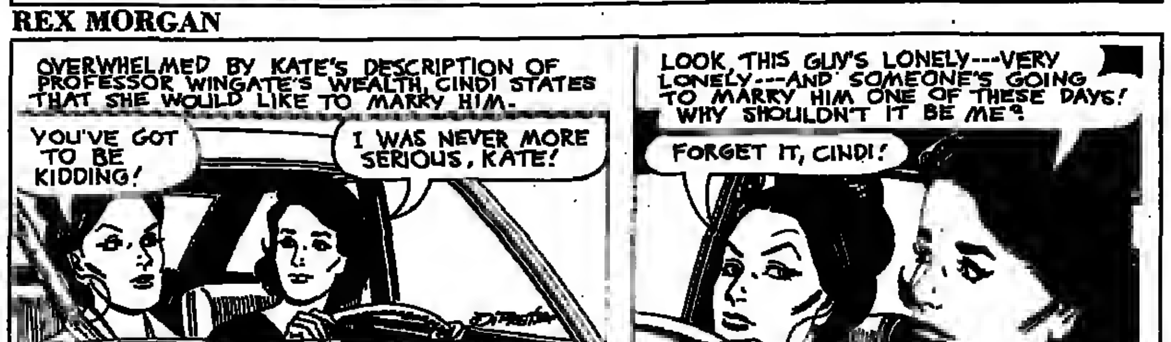

## BEETLE BAILEY




## ANDY CAPP


## WIZARD of ID


## REX MORGAN




## GARFIELD


## WORLD STOCKS IN REVIEW / Via Agence France-Presse

### Amsterdam

Underlying buoyancy on the Amsterdam exchange kept losses moderate last week. The ANP-CBS general index closed at 304.8 on Friday, down from 313.4 the previous Friday.

Volume was 4.924 billion guilders for the week, against 4.801 billion the week before.

The Amsterdam brokerage Kempen & Co. said it expects the coming week to be quiet.

### Frankfurt

The West German stock market had a tough week, culminating in a plunge on Friday on worries about government proposals for a withholding tax on investment income.

The Commerzbank index lost 43.4 points on Friday to take the week's loss to 73.8 points and a closing level of 1,936.6.

Volume on the eight West German exchanges was only 15.04 billion DM for the week, against 17.18 billion the previous week.

### Hong Kong

The Hong stock market appeared to enter a consolidation phase last week after a near-constant surge in the previous six weeks.

The Hang Seng index closed Friday at 3,882.42, down 49.62 points from the previous Friday, after four days of uneven trading in a holiday-shortened week.

The broader-based Hong Kong Index finished 25.44 points lower at 2,574.15. Many analysts said the market had become overheated after gaining almost 300 points since Sept. 1. They said a consolidation was in the cards.

### London

Initially enlivened by takeover developments, shares on the London Stock Exchange fell back later last week in response to severe losses on Wall Street and a half-point rise in the U.S. prime rate, to 9.25 percent. The Financial Times industrial share index closed down 14.1 points on the week, at 1,858.2.

A pledge by the chancellor of the Exchequer, Nigel Lawson, of further cuts in income tax helped consumer stocks.

### Milan

Milan stocks perked up last week after several weeks of gloom, climbing 3.98 percent. Analysts said the buying spree came ahead of the monthly settlement period.

The Comit Index closed at 659.77 points, up from 634.20 the previous week. Trading volume was 255 million shares, up from the previous week's 172 million, for an overall value of 1.18 trillion lire.

### Paris

Rising U.S. interest rates hurt the Paris Bourse last week, as French stock prices lost almost 2 percent of their value in thin trading and indexes returned almost to the level noted at the start of the year.

The CAC index finished the week at 402.9, compared with 410.0 the previous Friday.

### Singapore

Renewed buying interest sent the Straits Times industrial index up 34.63 points last week, to close at 1,454.30.

Sentiment was high in anticipation of an improvement in the republic's third-quarter economic performance, to be announced soon.

### Tokyo

Tokyo prices continued to surge last week, in sharp contrast to a record fall on Wall Street.

The 225-issue Nikkei stock average, up by 766.59 yen the previous week, added another 576.32 yen to close at a record 26,338.77. The all-share TSE index, which rose 52.09 points the previous week, advanced 44.06 points to close at 2,158.25.

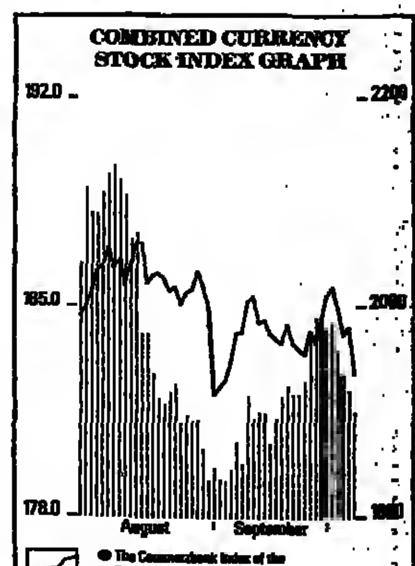
Dealers cautioned that many investors fear a rise in the discount rate to offset a possible rebound in the yen's value against the dollar.

### Zurich

Zurich stocks dropped slightly last week, under the influence of a lower Wall Street, a weaker dollar and higher interest rates.

The Credit Suisse index slipped to 637.3 on Friday from 639.1 the previous Friday, and the Swiss Bank Corp. index finished at 723.1 from 728.0 e week earlier.

COMBINED CURRENCY STOCK INDEX GRAPH




● The Commerzbank Index of the Frankfurt Stock Exchange

● Movement of the Deutsche Mark versus the US Dollar as of October 8, 1987

SOURCE SCHÖRCH & PARTNER AG ZURICH • AMSTERDAM

## BOURSE: Foreigners Coming to Paris

**(Continued from first finance page)**

vestment houses, will be allowed to buy up to 30 percent of an existing firm beginning Jan. 1, 1988. At present, only individuals can own French agents de change.

On Jan. 1, 1989, outside investors can expand their holdings to 49 percent of French brokers, and a year later they will be allowed to hold 100 percent. In 1992, the number of exchange seats on the Bourse — which has dwindled to 45 due to mergers and bankruptcies over the years — will be increased, by a yet unspecified number.

Aside from Crédit Lyonnais, three other French banks, Banque Nationale de Paris, Société Générale and Crédit National, have announced plans to buy into agents de change. James Capel & Co., the London-based brokerage owned by a Japanese bank, has agreed to buy one, and several U.S. investment houses in addition to Shearson are said to be shopping around.

Some investors are balking, however, because certain agents de change have been asking up to 20 times earnings. Interested investors fret that they might not be able to fill the pipeline with enough orders to warrant paying a high price now, rather than waiting until more exchange seats open up in 1992. Others want to get into the Paris action now.

"We decided that if we were to wait until 1992 to get into the French market, it would be too late," explained David Cross, manager of international business development at James Capel, which plans to buy Dufour-Kohler-Lacarrière for an undisclosed sum.

By opening up the Bourse to giant financial entities, French officials hope that the market, which has stumbled lately, will get a quick shot in the arm.

Many British and American brokers say that even with deregulation, the Paris Bourse will have a long way to go before it makes the big leagues. There is already a back-office backlog stemming from the boom in volume over the last two years, and the Bourse and brokers are still at only the early stages of computerization.

But the biggest problem, critics of the French market say, is a lack of liquidity in many stocks. Many French brokers do not have the capital or proclivity to play the role of market-maker. And even though the Bourse's trading hours have been expanded and a continuous access computer system allowing the matching of bids was added last year, volume in many key stocks often remains low.

"Volume of Moët Hennessey Louis Vuitton was just 1,000 shares the other day," said Geoff Williams, market-making manager for Société Générale Merchant Bank, the French bank's London subsidiary. "If you want to unload $1 million worth of a stock in Paris, you might have to wait three or four days to do that, and nobody likes to wait that long."

But the French say the lack of liquidity is exaggerated. "We have $250- to $300 million in volume some days. That provides plenty of liquidity," said Mr. Finatton, the broker's head.

# SPORTS

## Tigers Come Back To Edge Twins, 7-6

By Michael Martinez
*New York Times Service*

DETROIT — The Detroit Tigers, down to their final four outs and probably left with little chance of coming back and winning the American League Championship Series, kept themselves afloat Saturday when Pat Sheridan delivered a two-run homer in the eighth inning for a 7-6 victory over the Minnesota Twins.

Sheridan's home run came off Jeff Reardon, who won the first game of the playoff Wednesday. It saved the Tigers the embarrassment of losing after holding a 5-0 lead.

The victory still left the Tigers down by two games to one in the best-of-seven series, but two games remained at Tiger Stadium before the teams return to Minneapolis.

On Saturday, Detroit squandered a five-run lead when Minnesota scored twice in the fourth, sixth and seventh.

But Reardon, who followed Juan Berenguer to start the eighth, gave up a single to Larry Herndon — he was replaced by a pinch-runner, pitcher Jack Morris — and Sheridan hit the first pitch into the upper deck in right.

Mike Henneman, who was unable to squelch the Twins' rally in the seventh, finished in relief of Walt Terrell and gained the victory before a crowd of 49,730.

The Tigers scored five runs in the third inning off Les Straker, the 28-year-old rookie who has become known as the third pitcher on Minnesota's "two-man" staff. Straker, who spent 10 seasons in the minor leagues before winning a place on the roster this season, struggled with his control from the beginning.

He walked two batters in the first but escaped without permitting a run, then was unable to survive the third.

He pitched to seven batters in that inning, and six of them reached base. Sheridan led off with a double, Lou Whitaker sent him to third with a single and Evans walked to load the bases. Gibson, who struck out five times in the first two games, then bounced into a force play at second to send home Sheridan.

Straker then had a 1-and-1 count on Alan Trammell, but as he leaned forward to check signs, he was detected wiggling his left shoulder by the plate umpire, Drew Coble, who called a balk. Whitaker came in, and Gibson, who had stolen second base, moved to third. Trammell's single to center made it 3-0 before Matt Nokes popped out and Chet Lemon was walked.

Tom Kelly, the Minnesota manager, brought in Dan Schatzeder, a left-hander, to pitch to Dave Bergman, the designated hitter. But the Tiger manager, Sparky Anderson, countered by sending the right-handed-hitting Herndon to bat. It was a profitable move: Herndon pulled a double to left, driving in Trammell from second base and Lemon from first.

Schatzeder, who pitched for the Tigers in 1980 and 1981, held Detroit scoreless in the fourth, fifth and sixth while his offense turned the game from an apparent runaway to another Minnesota lead.

Greg Gagne, who had just 10 home runs during the regular season, led off the fourth with a home run for Minnesota's first run. Terrell followed with a walk to Kent Hrbek, who came around to score on singles by Gary Gaetti and Randy Bush.

In the sixth, another walk came back to haunt Terrell. He put Bush on base with two out before Brunansky homered to left on an 0-2 pitch.

The Twins, who have trailed in all three games, finally went in front with two more in the seventh. Henneman replaced Terrell with none out and runners at first and third, but he could not halt the rally, despite getting the first out on a play at the plate.

Gaetti, who had a pair of home runs in the first game, delivered an equally important hit, lining a single to right on the first pitch from Henneman, driving in two runs for a 6-5 lead and quieting a crowd that had been too cold to cheer for much of the day.

Reuters/United Press International

**Although tagged hard by catcher Tony Pena, San Francisco's Jeffrey Leonard has been tagging Cardinal pitching harder.**

## Giants Tie Series on Leonard's 4th Homer

By Joseph Durso
*New York Times Service*

SAN FRANCISCO — Jeffrey Leonard made baseball playoff history Saturday night when he hit his fourth home run in four games and led the San Francisco Giants to a 4-2 victory that squared their National League series with the St. Louis Cardinals at two games apiece.

Leonard hit his record-breaking home run one night after being struck by a knockdown pitch and vowing that "somebody will pay."

He redeemed the promise in the fifth inning Saturday night before a crowd of 57,996 (a Candlestick Park record) when he hit a two-run home run off Danny Cox and snatched the lead for the Giants. And Mike Krukow, with the help of a dazzling defense that turned four double plays, protected it as he dueled Cox for the full nine innings.

There was a growing current of hostility between the teams, some of it dating to a fight in the summer of 1986, some of it springing from confrontations since then.

The latest came when Leonard, who wears uniform No. 00 as his personal badge, hit a home run off Greg Mathews in the opening game. He hit one off John Tudor in Game 2. He hit another off Joe Magrane in Friday's third game. All three were marked by with distinctive, slow trots around the bases.

When he went to bat again after his home run Friday night, Bob Forsch nailed him with a fastball on the shoulder. Not only that, but the Giants then subsided and blew a 4-0 lead.

By then, San Francisco's main challenge seemed to be the Cardinals' talent for survival, which they showed with dramatic effect Friday.

That night, when they fell four runs behind inside of three innings, they were playing without Jack Clark and Terry Pendleton and they hadn't scored a run in 16 innings. They even sent Clark up as a pinch-hitter, in his debut in the playoffs, and he struck out.

But just when it seemed all but dead, St. Louis suddenly roared to life. The Cards scored two sixth-inning runs off Atlee Hammaker on a home run by Jim Lindeman — Clark's replacement — added four in the seventh and bushwhacked the Giants, 6-5. And they built their four-run rally on five consecutive singles (including two by pinch-hitters), a stolen base by a pinch runner, a sacrifice bunt and a sacrifice fly.

"I don't like to harp on injuries," said Whitey Herzog, the Cardinal manager, "because we've had them all year. You know, when you lose a Jack Clark or a Terry Pendleton, you lose about 200 RBIs from your lineup." Clark is still recovering from the severe ankle sprain he suffered Sept. 9; Pendleton, who had 12 homers and 96 runs batted in while batting .286 in during the regular season, sprained his left ankle in Thursday's workout; he was scratched from Friday's game but was in the lineup on Saturday.

It didn't take the Cardinals long Saturday night to string together another series of singles, this time off Krukow.

With one out in the second, Curt Ford singled to right field. Tony Pena followed with a ground single up the middle, and Ford sprinted to third. Center fielder Eddie Milner unwisely tried to throw him out; on the unsuccessful attempt Pena took second base unchallenged.

Now the batter was Cox, the pitcher, and although it was only the second inning the Giants moved their infield in close for a play at the plate. But they were stung. Cox hit a grounder between the diving shortstop, José Uribe, and third baseman Kevin Mitchell, and it shot past for a single and a 1-0 lead. When Vince Coleman bounced a single into right field, Pena crossed and the Cards led by two.

The Giants made a couple of immediate menacing gestures, but Cox worked his way clear with strikeout pitching.

In the bottom of the second, Bob Brenly singled with one down, but Cox struck out Robby Thompson and Uribe. Then, in the third, Cox invited trouble when he opened by walking Krukow.

He struck out Milner swinging but was promptly tagged for a single to center by Mitchell, putting runners on first and second with Leonard — 6-for-11 on the series — coming up. But Cox struck him out (swinging) on a slider and then fanned Will Clark to stay two runs in front.

Cox added a strikeout in the fourth, when he got Brenly swinging for his sixth of the game. But with two down and nobody on base, he finally slipped. The hitter was Thompson, who lined a 1-1 pitch over the left-field fence. The St. Louis lead was halved, and the stage was set for the return of No. 00.

Cox retired the first two batters in the next inning and seemed safe enough, but Mitchell clipped him for a double into the left-field corner — and there was Leonard at the plate again. He didn't keep anybody waiting long, hitting the first pitch high to left field for a home run and a 3-2 lead.

Leonard wasn't the first man to hit four home runs in a National League playoff (Bob Robertson did it for Pittsburgh in 1971 and Steve Garvey did it for Los Angeles in 1978). But nobody had hit four in consecutive games — Henry Aaron, Gary Matthews and Bill Madlock had homered in three straight — until Leonard started taking his cuts against St. Louis.

## Columbia Loses Record 35th Straight Game

*Compiled by Our Staff From Dispatches*

**U.S. COLLEGE FOOTBALL**

PRINCETON, New Jersey — Losing has become a way of life for Columbia football teams, and on Saturday the Lions set an NCAA Division I record.

Columbia dropped its 35th consecutive game, 38-8, to a Princeton team led by the sons of the Lions' former coach, Jim Garrett.

Northwestern had established the previous record of 34 straight defeats between Sept. 22, 1979, and Sept. 18, 1982, and Columbia equaled it last weekend with a 23-0 loss to Pennsylvania.

"This will always be a game that hurts," said defensive tackle Matt Sodl. "Fifteen, 20 years from now, it's going to hurt. This is a record that will go down in history. I don't like anyone calling me a loser, it's a stigma."

Said Coach Larry McElreavy: "I'm not going to go jump off that building over there. My heart is still beating, my players' hearts are still beating, and I know the sun will come up tomorrow."

"They don't feel good right now," he said of his players. "We're going to work them hard, coach them hard, try to get them to believe. That's our biggest obstacle now."

Jason, John and Judd Garrett, whose father was fired two years ago, combined for four Princeton touchdowns. Jim Garrett was axed by Columbia after an 0-10 season in which Garrett called his players "drug-addicted losers" and later tried to retract the statement. His three sons transferred to Princeton after the dismissal.

Judd Garrett, who rushed for 147 yards on 19 carries, burst 58 yards around right end to score on the second play of the game. On the third play of the next drive, Jason Garrett passed to brother John along the left sideline for a 74-yard score.

Judd Garrett ran one yard for a touchdown on Princeton's next possession and eight yards for a score late in the third period.

"I'd be lying if I said it didn't mean something special," said Jason Garrett, Princeton's quarterback, who completed 10 of 17 passes for 173 yards. "I know a lot of those guys on *that side* of the ball."

Columbia, 0-4 this year, has not won a game since defeating Yale, 21-18, on Oct. 15, 1983. In the ensuing 38 games, it is 0-36-2.

During its losing streak, Columbia has been shut out nine times, including four times in its last seven games. The Lions had not scored in the last 153 minutes and 57 seconds. But the streak was broken Saturday when Chris Konovalchiak scored on 14-yard run with 7:49 to play. Columbia made the 2-point conversion.

**Indiana 31, Ohio State 10:** In Columbus, Ohio, Dave Schnell passed for 200 yards and two touchdowns and Anthony Thompson ran for 126 yards and a TD, enabling Indiana (4-1) to beat Ohio State (3-1-1) for the first time since 1951.

**Michigan State 17, Michigan 11:** In East Lansing, Michigan, Lorenzo White rushed for 185 yards and two touchdowns and John Miller collected a school-record four interceptions to spark Michigan State (3-2) to an upset victory over Michigan. The seven interceptions of Michigan quarterback Demetrius Brown broke the record of five by Stan Noskin in 1959 against Wisconsin.

**Memphis State 13, Alabama 10:** In Memphis, Tennessee, John Butler kicked a 47-yard field goal with 8:28 remaining to give Memphis State (2-3) its first victory ever over Alabama (4-2). Defensive tackle Greg Ross returned an interception 24 yards to set up the game-decider. Butler also kicked a 37-yarder on the final play of the first half.

**Oklahoma 44, Texas 9:** In Dallas, third-quarter interceptions by Randy Dixon, Troy Johnson and Derrick Crudup set up touchdowns and helped 5-0 Oklahoma thrash Texas.

Fullback Lydell Carr scored touchdowns on runs of 7 and 32 yards, and the Sooners intercepted a school-record seven passes.

Texas (2-3) came into the game a 30-point underdog, largest in the 82-year history of the series.

**Nebraska 54, Kansas 2:** In Lincoln, Nebraska, Ken Clark ran for two touchdowns and Nebraska accumulated 363 rushing yards in beating Kansas for the 19th straight time. Clark had scoring runs of 4 and 22 yards for the 5-0 Cornhuskers.

**Auburn 48, Vanderbilt 15:** In Auburn, Alabama, Jeff Burger completed 14 of 18 passes for 282 yards and two TDs in the Tigers' romp over Vanderbilt. Auburn improved to 4-0-1 overall and 1-0-1 in the Southeastern conference.

**Pittsburgh 30, Notre Dame 22:** In Pittsburgh, Sal Genilla threw for a touchdown and ran for another as the Panthers turned two first-quarter turnovers into a 27-0 halftime lead and held on to upset Notre Dame. Craig Heyward ran for two first-half scores and carried a school-record 42 times for 132 yards to help Pitt (4-2) hand the Irish their first loss in four games.

**Clemson 38, Virginia 21:** In Clemson, South Carolina, Terry Allen and Tracy Johnson each ran for two TDs, helping the Tigers to their 27th straight triumph over Virginia.

**Washington 27, Arizona State 14:** In Seattle, Washington's defense, led by linebacker Bo Yates's two interceptions and a sack, held Arizona State to 131 yards en route to a Pacific-10 victory.

**Penn State 35, Rutgers 21:** In University Park, Pennsylvania, Blair Thomas rushed for three scores and Matt Knizner threw a 39-yard scoring pass to Ray Roundtree, pacing Penn State (5-1) to its 15th consecutive triumph over Rutgers.

**Florida 65, Fullerton State 0:** In Gainesville, Florida, freshman Emmitt Smith rushed for 130 yards and two TDs and Kerwin Bell threw two scoring passes to help Florida (4-2) club Fullerton State.

**Arizona 23, California 23:** In Berkeley, California, quarterback Jeff Hammerschmidt fumbled on the Cal 21-yard line with 42 seconds to play, stopping an Arizona drive and leaving the Golden Bears with a 23-23 tie.

**Oklahoma State 42, Colorado 17:** In Stillwater, Oklahoma, Thurman Thomas rushed for 110 yards and a touchdown and Barry Sanders ran for a pair of scores to spark Oklahoma State's rout. (AP, UPI)

Melissa Mahon/The Associated Press

**Darrell Reed, left, and Troy Johnson decked quarterback Bret Stafford as Oklahoma buried Texas, 44-9, Saturday in Dallas.**

## Bears Defeat Vikings, 27-7

*The Associated Press*

**PRO FOOTBALL**

CHICAGO — The Chicago Bears, unbeaten with their regular players, won their second game with replacements Sunday with a 27-7 victory over the Minnesota Vikings.

Both of Minnesota's losses have come since the regular National Football League players went on strike. Chicago, 4-0, has a two-game lead over Minnesota, expected to be its closest division rival.

The Bears defense, which had nine sacks for 70 yards, kept the Vikings scoreless until the fourth quarter. Tony Adams capped a 71-yard drive with an 11-yard touchdown pass to James Brim for Minnesota's points.

**Patriots 14, Bills 7:** In Foxboro, Massachusetts, New England's running attack, the NFL's weakest last season, powered New England to victory over Buffalo. Mike LeBlanc, who failed two previous tryouts with New England, became the first Patriot to rush for more than 100 yards since Craig James gained 142 against Cincinnati on Dec. 22, 1985. LeBlanc ran for 146 yards in leading the Patriots to 212 rushing yards overall.

**Dolphins 42, Chiefs 0:** In Miami, Liffort Hobley, the one union member to cross the picket line, returned a fumble 55 yards for a touchdown as the Dolphins routed Kansas City. The first regular-season game in Joe Robbie Stadium ended with 25,867 fans chanting "Stay on strike, stay on strike. The regular Dolphins ranked 26th in the league last year. The replacement defense registered the first Miami shutout since late 1985 and scored two touchdowns on fumble recoveries.

**Cardinals 24, Saints 19:** In St. Louis, Missouri, veteran Leonard Smith and substitute Mark Jackson returned fumbles for touchdowns as St. Louis overcame a lopsided total yardage deficit for victory over New Orleans in a game featuring rosters stocked with 30 players who crossed picket lines. The Cardinals have had 18 players cross the picket line, more than any other team.

**Oilers 15, Browns 10:** In Cleveland, Herman Hunter rushed for 121 yards on 28 carries against a Cleveland defensive line that included a 12-year NFL veteran and a former No. 1 draft pick as Houston beat the Browns. The Oilers, at 3-1, are off to their best start since 1979. Hunter, a former Philadelphia and Detroit running back, replaced the injured Andrew Jackson in the second quarter.

**Chargers 17, Bucs 13:** In Tampa, Florida, a crowd of 23,873 watched in the rain as Rick Neuheisel came off the bench and directed three second-half scoring drives that carried San Diego to victory. Neuheisel, a star in the Rose Bowl for UCLA, replaced Mike Kelley at quarterback for San Diego midway through the second quarter.

**Cowboys 41, Eagles 22:** In Irving, Texas, Kelvin Edwards ran a reverse 62 yards for a touchdown on Dallas's first play and the Cowboys rolled over outmanned Philadelphia. The Cowboys got a standing ovation in pregame introductions, but the fans turned nasty when veterans Tony Dorsett and Danny White, who crossed the picket line two weeks ago but did not play last week, entered the game in the second half with Dallas leading 27-10.

**Colts 6, Jets 0:** In Indianapolis, the replacements got the Colts' first shutout in 11 years, while Steve Jordan kicked field goals of 35 and 25 yards Sunday in a victory over New York.

## Seoul Official Says Eastern Nations Promise to Attend the '88 Olympics

*The Associated Press*

SEOUL — Kim Chong-ha, president of South Korea's national Olympic committee, said Sunday that the Soviet Union and other East European nations had promised to attend the 1988 Seoul Olympics.

Kim made the statement upon arrival from Sofia, where he attended a two-day meeting of the 34-member Association of European National Olympic Committees.

"I have received a firm commitment from NOC presidents of the Soviet Union, East Germany and other Communist nations to take part in the Seoul Games," Kim said. "None of them mentioned the possibility of a boycott."

He said he had been told that the number of athletes to be dispatched to the Seoul Olympics would be about 600 from the Soviet Union, 500 from East Germany, 300 from Yugoslavia and 200 from Bulgaria.

He also quoted a Soviet vice minister of sports as proposing that his nation send groups of athletes *for* pre-Olympic training in Seoul after November and *before* early next year.

He ruled out the possibility of a Communist-bloc boycott led by North Korea, which is attempting to become be a co-host to the Games.

After the meeting in Sofia, Juan Antonio Samaranch, president of the International Olympic Committee, said he was seeking a meeting with the Soviet leader, Mikhail S. Gorbachev, to head off any Communist boycott.

The IOC made a "final" offer in June to let North Korea host archery, table tennis, women's volleyball, the men's 100-kilometer road cycling and some soccer preliminaries.

North Korea repeated its demand for six full sports — including the entire soccer competition — and insisted that it be made a co-host of the Games.

Last month, North Korea also requested direct talks with Seoul, bypassing the IOC, to discuss the co-host issue. South Korea rejected the request, saying it would talk only through the IOC.

Last week, the North Koreans said they were sending another letter to South Korea to discuss the issue. South Korea was expected to pick up the North Korean letter at the village of Panmunjom on Monday.

## SCOREBOARD

### Baseball

#### Playoff Summaries

NATIONAL LEAGUE
GAME 3

| ST. LOUIS | ab r h bi | SAN FRAN | ab r h bi |
|---|---|---|---|
| [illegible] | [illegible] | [illegible] | [illegible] |

St. Louis [illegible] — 6 11 1
San Francisco [illegible] — 5 7 1

Game-Winning RBI—Coleman (1). [illegible] Umpires—Home, Dave Pallone; First, Eric Gregg; Second, Jim Quick; Third, Bob Engel; Left, John Kibler; Right, Ed Montague.

GAME 4

| ST. LOUIS | ab r h bi | SAN FRAN | ab r h bi |
|---|---|---|---|
| [illegible] | [illegible] | [illegible] | [illegible] |

St. Louis [illegible] — 2 9 0
San Francisco [illegible] — 4 9 0

Game-Winning RBI—Leonard (1). [illegible] Umpires—Home, Eric Gregg; First, Jim Quick; Second, Bob Engel; Third, John Kibler; Left, Ed Montague; Right, Dave Pallone.

AMERICAN LEAGUE, GAME 3

| MINNESOTA | ab r h bi | DETROIT | ab r h bi |
|---|---|---|---|
| [illegible] | [illegible] | [illegible] | [illegible] |

Minnesota [illegible] — 6 8 1
Detroit [illegible] — 7 7 0

Game-Winning RBI—Sheridan (1). [illegible] Umpires—Home, Drew Coble; First, Al Clark; Second, Mike Reilly; Third, Jim McKean; Left, Joe Brinkman; Right, Durwood Merrill.

### U.S. College Results

EAST
Air Force 23, Navy 13
Alfred 28, St. Lawrence 25
Amherst 28, Middlebury 16
Boston Col. 29, Army 24
Boston U. 31, Connecticut 7
Bowdoin 45, Tufts 14
Coast Guard 13, Wesleyan 7
Cornell 29, Harvard 17
Delaware 27, Massachusetts 24
Hamilton 38, Bates 14
Hofstra 35, Wagner 28
Holy Cross 42, Dartmouth 23
Lafayette 42, Bucknell 21
Lehigh 7, Colgate 6
Northeastern 21, Maine 17
Penn 36, Brown 17
Penn St. 35, Rutgers 21
Pittsburgh 30, Notre Dame 22
Princeton 38, Columbia 8
Trinity 28, Williams 0
[illegible] 24, Temple 17
Yale 40, William & Mary 34

SOUTH
Auburn 48, Vanderbilt 15
Clemson 38, Virginia 21
E. Carolina 56, Cincinnati 28
Florida 65, Fullerton St. 0
Florida St. 61, S. Mississippi 10

### Football

Georgia Tech 38, Indiana St. 0
Grambling 34, Tennessee St. 9
James Madison 41, Richmond 3
Kentucky 35, Mississippi 6
Louisiana State 26, Georgia 23
Marshall 34, Louisville 31
Memphis St. 13, Alabama 10
Miami (Fla.) 46, Maryland 16
S. Carolina 40, Virginia Tech 10
VMI 7, Citadel 3
Wake Forest 22, N. Carolina 14

MIDWEST
Ball St. 24, Kent St. 21
Bowling Green 38, Ohio U. 7
Cent. Michigan 16, E. Michigan 6
Drake 42, Quincy 14
Indiana 31, Ohio St. 10
Iowa 31, Wisconsin 10
Miami (Ohio) 17, W. Michigan 0
Michigan St. 17, Michigan 11
Minnesota 45, Northwestern 33
Missouri 34, Kansas St. 10
N. Illinois 41, Toledo 3
Nebraska 54, Kansas 2
Purdue 9, Illinois 3

SOUTHWEST
Arkansas 21, Texas Tech 0
Baylor 34, SW Texas St. 15
Oklahoma 44, Texas 9
Oklahoma St. 42, Colorado 17
Texas A&M 22, Houston 17
Texas Christian 38, Rice 16

FAR WEST
California 23, Arizona 23
Fresno St. 35, S. Illinois 0
Hawaii 41, New Mexico 21
Idaho 31, Montana 28
Oregon 34, Southern Cal 27
Oregon St. 42, Akron 26
San Jose St. 27, New Mexico St. 6
Stanford 44, Washington St. 7
Texas-El Paso 34, San Diego St. 31
Utah 24, Colorado St. 23
Washington 27, Arizona St. 14
Wyoming 29, Brigham Young 27

#### CFL Standings

| Eastern Division | W | L | T | PF | PA | Pts |
|---|---|---|---|---|---|---|
| x-Winnipeg | 10 | 4 | 0 | 459 | 297 | 20 |
| x-Toronto | 8 | 5 | 1 | 396 | 345 | 17 |
| Hamilton | 6 | 7 | 1 | 342 | 383 | 13 |
| Ottawa | 2 | 12 | 0 | 325 | 502 | 4 |
| **Western Division** | | | | | | |
| x-Edmonton | 9 | 4 | 0 | 452 | 313 | 18 |
| Brit Clmb | 8 | 6 | 0 | 372 | 267 | 16 |
| Calgary | 7 | 7 | 0 | 331 | 410 | 14 |
| Saskatchwn | 3 | 9 | 1 | 281 | 413 | 7 |

(x-clinched playoff berth)

Friday's Result
Toronto 38, Ottawa 27

### Hockey

#### NHL Standings

WALES CONFERENCE
Patrick Division

| | W | L | T | Pts | GF | GA |
|---|---|---|---|---|---|---|
| [illegible] | | | | | | |

CAMPBELL CONFERENCE
Norris Division

| | W | L | T | Pts | GF | GA |
|---|---|---|---|---|---|---|
| [illegible] | | | | | | |

FRIDAY'S RESULTS
[illegible]

SATURDAY'S RESULTS
[illegible]

### European Soccer

ENGLISH FIRST DIVISION
[illegible]

WEST GERMAN FIRST DIVISION
[illegible]

EUROPEAN CHAMPIONSHIPS
[illegible]

### Tennis

MEN'S TOURNAMENTS
(At Basel, Switzerland)
Semifinals
Yannick Noah (1), France, def. Guy Forget (6), France, 6-1, 6-2.
Ronald Agenor, Haiti, def. Andre Agassi, U.S., 6-1, 6-4.
Final
Noah def. Agenor, 7-6, 6-4, 6-4.
[illegible]
Semifinals
Paul Annacone, U.S. def. Ivan Lendl, Czechoslovakia, 6-3, 6-2.
John McEnroe, U.S. def. Jimmy Connors, U.S., 6-4, 6-4.
(At Scottsdale, Arizona)
Semifinals
Eliot Teltscher (7), U.S. def. David Pate (4), U.S. 7-6 (7-3), 7-5.
Brad Gilbert (3), U.S. def. Michael Chang, U.S. 6-3, 6-4.
WOMEN'S TOURNAMENT
(At Filderstadt, West Germany)
Semifinals
Steffi Graf, West Germany, def. Catherine Tanvier, France, 6-3, 6-0.
Manuela Maleeva, Bulgaria, def. Elise Burgin, U.S. 6-1, 6-1.
Final
Graf def. Maleeva, 6-1, 6-2.

### Transition

BASKETBALL
National Basketball Association
[illegible]

HOCKEY
National Hockey League
[illegible]

# Louis Malle Looks Into the Shameful Past

*International Herald Tribune*

PARIS — Exactly 30 years ago Louis Malle, who was 24 years old going on 25, made his first feature film, "Ascenseur pour l'echafaud." It won the Louis-Delluc prize and was a taut suspense film, remarkably cool and elegant — traits common to Malle's later work and due in part to a natural reserve that distances him from his subject and view-

**MARY BLUME**

ers (his first film was also notably cool because he had never worked with actors, his only previous experience having been as co-director of Jacques-Yves Cousteau's "Le Monde du silence," with fish).

It has taken 30 years to shatter Malle's composure and he did it to himself by choosing to make "Au revoir les enfants," an autobiographical film set in Occupied France which has won the Venice festival Golden Lion and unusually warm praise from Paris critics. The weekly magazine Le Point called it "a masterpiece of simplicity" and the Journal du Dimanche simply said, "It will overwhelm you."

"I am," Malle says, "all shaken up."

"Au revoir les enfants" is Malle's 16th feature film and it is, he says, the film he should have made long ago but couldn't. "It felt sometimes like I was making my first film."

In 1944 Malle was at a boarding school near Fontainebleau for boys who were, like himself, of the upper middle class. "It was like an English public school," he says, "except it was run by priests." Although the other boys didn't know it, three of the students were Jewish refugees whom the priests were hiding and one winter day the Gestapo took away the three boys and the headmaster, Father Jean, all of whom died in German camps. The title comes from Father Jean's last words to the stunned children lined up in the icy courtyard to see the pathetic group taken away: "Au revoir les enfants, à bientôt."

The story centers on the friendship between Julien (the young Malle) and the mysterious newcomer known as Bonnet. It is a story that other French people lived through in the Occupation and Malle stresses its ordinariness, even shrewdly using the usual clichés about the Occupation to give a very intimate film a bigger scale. The German officers are, as stereotype demands, "correct," the insouciant greed of black market trafficking conceals a greater corruption, and Bonnet excels at music and math as Jews are supposed to.

"I wondered about using that stereotype for a long time but I think I had to be honest with my memory and he was really like that, maybe because of what had happened to him. He was ahead of us," Malle says. Bonnet became a symbol for the questions Julien/Malle was obliged to ask himself: "What is it to be Jewish and why him and not us? The fact that this child is so gifted makes it more shocking in a way."

Sygma

Director Malle: "It's taken me a long time, 30 years, to deal with the essential, which is my childhood."

The questions that Julien/Malle asked and the shock of the experience led to his becoming a filmmaker, he says. It was a means of breaking with the world that permitted such horrors and also it was a means of questioning and trying to understand life. As a director he is especially good with children and adolescents in a marginal world and as a director he often turns from feature films to documentaries on subjects he wants to learn more about (his latest documentary, made for American television, is on the new generation of American immigrants — "the very last wave," he says, "not the Irish or the Germans or the Swedes, but Pakistanis and Nigerians and Koreans").

In 1964, around the time when Malle was preparing "Viva Maria" with Jeanne Moreau and Brigitte Bardot, Bonnet's sister, the only survivor of the family, wrote to suggest that Malle make a film on his childhood experience, a suggestion he couldn't handle at all. Twenty years later, in a small Texas port to make "Alamo Bay," a very strong film about Klan persecution of newly-arrived Vietnamese fishermen, Malle felt so removed from any sort of life he knew that he began to think about his past and started making notes for the film.

He found himself writing the script very quickly in August 1986 when he was spending the summer at his house in the Lot with his wife and children. His wife, Candice Bergen, read the first draft and told him to drop everything and make the film.

He did, having raised funds from French and German backers. "I moved very fast, trying to keep the momentum. I didn't try to reconstitute exactly what happened but it was very close, so this trip into a very painful moment in my childhood was not easy. It was more than 40 years ago but it was very close in many ways, so I had to open up and talk about who I was, where I came from, my mother, my background, my terrors as a child, emotions. You don't do that easily."

Bonnet, he says, has been with him since 1944. "And he's with me a lot now because it seems he is going to come into the consciousness of a lot of people. It is as if I am transmitting this memory to a lot of people, which is a good reason to have done it."

The release of the film is opportune in view of the Klaus Barbie trial last spring and the recent utterances of National Front leader Jean-Marie Le Pen about extermination camps being a small detail of history, but Malle says the Barbie trial had nothing to do with his decision to film since, like many French people, he never thought the trial would finally occur. But like the Barbie trial, the film is an attempt to teach memory.

"For me it's a way of fixing this moment in my past so I can transmit it and it doesn't die with me," Malle says. He dedicated the film to his children: "Passing on these memories is the most important thing I could give them."

The film has had such a warm and sentimental reception in Paris that what spurts of criticism there have been might be considered churlish. Malle thinks it is probably his best film, with the paralysis that such a thought implies. He finds it impossible to go on with a project he was working on before "Au revoir les enfants," a comedy about American expatriates in Europe with a script by John Guare.

"What I'd really like to do is take some time off now. It's taken me a long time, 30 years, to deal with the essential, which is my childhood although I did it a little bit in 'Le Souffle au coeur.' I suppose it's the beginning of a whole new opus which would be really a sort of Proustian exploration of my past, but some days I think I want to go again and follow my curiosity about things happening today and close this chapter. So it's a very strange situation. I am aware of the fact that this film is deeper that anything I have done so far, but maybe this is the one and only."

In the past, Malle's sleek films have troubled French critics who have compared him to everyone from Percy Bysshe Shelley to the revered director of Jerry Lewis, Frank Tashlin, but who have been unable to find a connecting link in his oeuvre. "The link," Malle liked to say, "is myself."

But it is a self well-concealed. Now the dandy has dropped his mask and after the first sting seems to like the fresh air. French critics, thrilled that he is back after 10 years of working in the United States, have welcomed him like a prodigal son. "'Au revoir les enfants' has a huge impact, which I was hoping for but not necessarily expecting. There were so many traps, so many ways it could miss, but it seems to have come out strong and moving and so now they say he is back, back to his roots, back to his language."

The welcome back is certainly sincere but Malle says that it is far from certain that the French will send "Au revoir les enfants" as their competition entry for the Best Foreign Film category of the 1988 Academy Awards. However as a co-production, the film can, if the French don't want it, compete under the German flag. "It's entirely possible," Malle says with the slightest hint of his old ironic smile.

## LANGUAGE

# The 'Murder Board' Case

By William Safire

WASHINGTON — "Bork Shunned 'Murder Boards' and Prepped Alone" was the headline in Legal Times. Before the Senate hearings into the confirmation of Judge Robert H. Bork began, according to the Washington weekly for lawyers, the White House held a session with the president's nominee to the Supreme Court to help him anticipate likely questions. "He did one *moot court* over at the White House," a Bork friend was quoted as saying, "but after that he canceled all the rest."

Wrote Aaron Freiwald, the reporter: "A senior White House official acknowledges that the 'murder boards,' as the moot-court sessions are known to administration officials, did not prove effective with Bork." Apparently the judge needed no coaching from White House aides.

A *moot court* is a hypothetical arena, a mock court set up for students; the phrase was recorded in the 1788 writings of Thomas Jefferson: "He gives lectures regularly, and holds moot courts and parliaments wherein he presides." As a noun, *moot* came from the Old Norse word for "meeting," and from this legal usage gained a connotation of "debatable," which has come down to us as an adjective meaning "abstract, purely academic."

But *moot court* lacks zip and sparkle. A term was needed to describe a more hectic, hostile affair. *Murder board* is Pentagonese, though some say the phrase originated in the interrogation methods used by intelligence analysts seeking to establish a defector's bona fides. The original meaning was "rigorous examination of a proposed program" or, more specifically and less bureaucratically, "a group charged with the responsibility to slam a candidate or proposer of an idea up against the wall with tough questioning."

In 1980, the U.S. Joint Chiefs of Staff received a report from Admiral James L. Holloway criticizing the absence of an "intervening scrub-down or murder board of the planning product."

*Scrub-down* did not make it outside the naval bureaucracy, perhaps because of its closeness to *shakedown*, but more likely because *murder board* was more colorful. In 1982, The Economist of London used the Pentagonian term in a more specific reference: "A so-called 'murder board' was set up to test Air Force witnesses with hostile questions they might encounter from committee members." Although the military continues to use the phrase to cover all tough-minded review boards, civilians have narrowed its use to the no-holds-barred preparation of witnesses for hearings or of politicians for press conferences.

WE are indebted to the defense community for another colorful phrase, recorded first by the Harvard Business Review in 1976: "Lockheed Aircraft Corporation's 'skunk works' is an example of this kind of highly productive approach. . . . Before a dollar is spent, a skunk-works staff is indoctrinated to ask, 'Will it contribute to short-range profit?'" A year later, Newsweek wrote that the U-2 aircraft of the 1950s had been "fashioned by ace designer Clarence (Kelly) Johnson at Lockheed Aircraft's California 'skunk works.'"

The Jet Propulsion Laboratory went a step further and dubbed a special office "the planetary skunk works." The phrase was picked up by the author Thomas J. Peters in his best seller, "In Search of Excellence," as a technique shared by innovative companies in which small groups are encouraged to break out of establishmentarian habits to come up with new technologies, marketing strategies or products.

At the Random House Dictionary, lexicographers took note. Hence, in the new Random House Unabridged, the informal *skunk works* is defined as "an often secret experimental division, laboratory, project, or the like, for producing innovative designs or products, as in the computer or aerospace field."

The etymology is clear: ". . . after Big Barnsmell's *Skonk Works*, where the illicit liquor Kickapoo Joy Juice was made, in Al Capp's comic strip Li'l Abner." (The cartoonist and satirist Capp spelled the first word with an *o*; usage has returned the word to its original spelling and pronunciation, and dropped the capitalization.)

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